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A Propos of the Euro-Zone crisis: From ‘Uneven and Combined Development’ (UCD) to ‘Global Fault-lines’ (GF)

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A Propos of the Euro-Zone crisis: From ‘Uneven and Combined Development’ (UCD) to ‘Global Fault-lines’ (GF)

Vassilis K. Fouskas & Constantine Dimoulas*

Abstract

This article advances a crisis theory of financialisation and imperial geo-politics in order to recast key concepts and causal parameters related to the sources of debt and the way in which the Euro-Atlantic area is in danger of complete disintegration. It juxtaposes the concept of 'uneven and combined development' (UCD) to that of 'global fault-lines' (GF), showing the advantages enjoyed by the latter with the inclusion of geo-political and security dimensions as co-constitutive explanatory variables in the understanding of economic crises in general and of the Euro-zone crisis in particular.

‘Real’ capital, ‘fictitious’ capital and uneven (and combined) development

Capitalism is liable to crises. When the prevailing forms of political economy under capitalism are industrial and commercial pertaining to the form M-C-M' (Money-Commodity-Money'), then crises manifest themselves primarily in the 'real' economy, that is the sphere of production and circulation of commodities that bear social value expended in them by labour-power.¹ A well-known historical form of this type of crisis is the severe crisis of over-accumulation in the 1970s. Another is the one that hit the industrial world in the 1890s. But when the prevailing form of capital activity takes primarily place in the sphere of circulation of money capital pertaining to the form M-M' – for instance, a rentier earning interest on a large deposit of capital, what Marx used to call 'money which begets money' – then crises first manifest themselves in the institutional sphere of production and circulation of paper, which is the sphere of 'fictitious' or imaginary capital *par excellence*. Cracks in the composition of the money form of capital and the credit system in the 20th century first appeared typically in the financial crisis of 1929-33. The global financial and Euro-zone crises today also fall into that category. Marx sees both these crisis processes of the 'real' and 'fictitious' economies as organically composed and opposed within the ensemble of *social capital*:

The real difference between profit and interest exists as the difference between a moneyed class of capitalists and an industrial class of

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capitalists. But in order that two such classes may come to confront one another, their double existence presupposes a divergence within the surplus value posited by capital (Marx 1857/1973: 852).

David Harvey's classic work, *The Limits to Capital*, argues that Marx developed a 'first-cut' theory of crises and this is his theory of over-accumulation and the falling tendency of the rate of profit that apply to capitalist production and exchange. He then goes on to argue, by way of building on Marx's own work, for a 'second-cut' theory that examines 'temporal dynamics' as these are shaped by a more integrated view of the relationship between the 'fictitious' money generated by financial/monetary arrangements and material production. Harvey, a geographer by profession, also sets out the parameters of a 'third-cut' theory, in which he considers the 'geography of uneven development into the theory of crisis'. If capital breaks out of its (national or regional) shell, so to speak, seeking investment outlets in various parts of the globe, then capital, whether industrial ('real') or financial ('fictitious'), is seeking for a 'spatial fix' (Harvey 1982/2006: 425). We must now elaborate on these propositions, as they are crucial in grasping the crisis in Greece and the Euro-zone, while grasping the significance of our 'global fault-lines' argument.

Capital, whether 'fictitious' or 'real', perpetually requires market space, investment opportunities and new geographies and, as such, it needs political and even military backing. In other words, in theory, capital is consubstantial with political-expansionist undertakings, while it is concerned about the security of its investments, actual or planned. But because it cannot do all that by itself, it requires a state in the form of an *imperial* state. Thus, every *capitalist* state is, potentially, an imperial state. An ideal-typical explanation of a crisis of over-accumulation goes as follows. Because capital faces competition from other capitals – horizontal forms of social struggle – and also competition from workers – vertical forms of social struggle – and because its *raison d'être* is how to make profit, it is forced to invest in technological innovation, new plantation etc. This is done in order to undercut competitors, but it is problematic because it tends to reduce the presence of labour-power in material production, which is the only source from which value and surplus-value are extracted (according to Marx, no value and surplus-value are created in the process of circulation, because the sphere of circulation of commodities, whether real or fictitious, are assumed to be essentially exchanges of equivalent values). To put differently, it has as a result an increase of the total investment at the expense of labour-power, the latter being the sole producer of value and surplus value.² Thus, the capitalist, that is the personification of capital, is entrapped. By investing in technological innovation to compete with other capitals nationally and internationally, capital pushes workers out of material production and this results in the rate of profit – the ratio of surplus-value to the total capital – to fall.³ The former is facing losses in profitability, the latter faces unemployment, precarious work and pauperisation. Thus, capital, as well as labour, tend to migrate. New caucuses of capital accumulation are formed around the globe and capitalism spreads worldwide. Typically, this is Marx's theory of over-accumulation crisis and of the tendency of the rate of profit to fall, whose full construction can be found in *Capital*, v.3, Part 3. Parts of the *Grundrisse* and of the *Theories of Surplus-Value* are also extremely useful in understanding crises of over-accumulation in capitalist history.⁴ Capital's agony to survive pushes it to become even more aggressive, global and expansionist, in fact imperialistic. 'The export of capital from a country', Bukharin says, 'presupposes an overproduction of capital in that country, an over-accumulation of capital' (Bukharin 1915/2003: 99).⁵

Marx and Harvey concur that the separation of 'real' and 'fictitious' capital is internal to the composition of capital as a social relation and process. 'Real' and 'fictitious' forms of capital are inextricably connected and Leo Panitch and others working around the important review, *Socialist Register*, are correct in pointing this out. But to understand this connection, as well as the problems resulting from it, we need to grasp the way in which credit operates.⁶ As Marx has shown in the third volume of *Capital* and elsewhere, credit is consubstantial with the functional operation of capitalism as a *dynamic* social system. As capitalists need to borrow in order to invest in production and technological innovation – thus intensifying the extraction of relative surplus-value – the credit they receive is but an anticipation of future value production as a counter-value, hence its 'fictitious' nature. However, this is a risky affair, because capital's investment strategy which now depends on borrowed money maybe unsuccessful. This problem capitalism tried to solve with the merging of industrial and banking capital, what Rudolf Hilferding called *finance capital*, which, according to Lenin and Bukharin, corresponds to the imperialist phase of capitalist development.⁷ The merging of industrial and banking capital induced further concentration/centralisation on a global scale, leading some Marxists of the Second International, such as Karl Kautsky, to put forth the theory of 'ultra-imperialism'.⁸ But these were vain attempts. Capital, as we saw earlier, continues to face opposition from workers and from other capitals, both nationally and internationally. This struggle saps the ability of capital to produce the use values and money required to compensate for the capital borrowed/merged, and this regardless of the degree of merger between banking and industrial capital and the tendency towards concentration/centralisation at the global level. 'Fictitious' capital is always an organic part of the credit form and the asymmetrical functioning of the value-form supersedes its tendency towards concentration/centralisation. Thus, there is no guarantee whatsoever that the future will generate the value promised as a collateral, the result being an increase of the gap between 'real' and 'fictitious' values and a surrender of the processes of 'ultra-imperialism' or 'global (capitalist) governance' to that of uneven (and combined) development. These processes multiply in periods in which crises of over-accumulation in real economy lead to severe disruption and falls in the rate of profit, thus pushing capitalists to diversify and embrace financialisation (easy profiteering through paper and bond trading, currency speculation, real estate speculation, insurance etc.).

According to Hilferding, *financial capital*, as opposed to *finance capital* (the fusion of banking and industrial capital), corresponds to the competitive stage of capitalism in which credit institutions and banks institutionalise usury, lend money and pursue all sort of activities whether related to material production or not. Financial capital tends to see money not as a means to investing in real economy in order to (re)generate profitability, but rather as an end in itself. But whereas this was mainly the case in the 19th century, contemporary forms of operations by financial capital especially from the 1970s onwards – that is after the fall of the Bretton Woods system and the introduction of *fiat money* – have been extremely complicated and globalised. Today's globalisation (=financialisation = dominance of new and largely uncommitted financial capital) has assumed an increased, and complex, institutional independence as speculative and profiteering economic activity (shadow banking, speculative arbitrage, stock market speculation, property speculation, buying and selling paper and bonds, money trading and speculation, insurance, dot.com bubbles, proliferations of derivatives, e-commerce, digitisation and complex mathematical formulas, and so on), flanked by powerful credit agencies, and moving more and more away from material production.⁹ In other words, if finance capital is mostly directly

committed to material production and growth strategies, financial capital is most likely to be wholly uncommitted to them. More to the point, in the conditions of extreme financialisation and neo-liberalism that prevailed from the 1980s onwards, that is after what Leo Panitch and Sam Gindin called 'the Volcker shock', financial capital has become a rather Ponzi development scheme undermining the fundamentals of capitalist production and (relative) surplus-value extraction.¹⁰ Financialisation, as its recent crisis in the Anglo-Saxon world and the Euro-zone has shown, is an extreme form of operation of financial, *uncommitted* capital. Richard Duncan would go as far as to say that this should not be really called 'capitalism' but 'creditism':

Once the constraint [the gold fetter] was removed (...), it also lifted any constraint on how much credit could be created. It has been easy for the US to maintain gold backing in the first post-war decades, because it owned most of the world's gold (...). Credit and debt are two sides of the same coin. In the US total debt - government, household, corporate and financial-sector debt, combined - expanded from \$1 trillion in 1964 to over \$50 trillion by 2007. Credit growth on this scale has been taken for granted as natural; but in fact it is something entirely new under the sun - only made possible because the US broke the link between dollars and gold. The explosion of credit created today's world (...). I call it 'creditism' (Duncan 2012: 13-14).¹¹

Furthermore, financialisation/'creditism' occurs in conditions of neo-liberalism whereby deficits and debts are transferred from the state onto the taxpayer, a key feature of neo-liberal economics which Robert Brenner, perhaps misleadingly, calls 'asset price Keynesianism'. Yet even this seems unable to solve the fiscal crisis of the state and the mounting debt and banking crises, hence the cock-up 'strategy' of present-day elites for more austerity and welfare state retrenchment in order to stave off the crisis. Overall, the use of financial instruments is the riskiest form of profit generation under capitalism, one in which leads mathematically to bubbles and 'boom and bust' cycles.¹² Unsurprisingly, the operations of financial capital always disturbed John Maynard Keynes, whose primary and sincere worry was the survival of capitalism by achieving 'an aggregate volume of output corresponding to full employment as nearly as practicable' (Keynes 1936/1993: 378). Keynes, quite rightly, thought that financial exuberance harms the well-being of capitalism as a social system:

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done (Keynes 1936/1993: 159).

All in all, 'the credit system internalises the contradictions of capitalism and does not abolish them' (Harvey 1982/2006: 272), and a 'moneyed capitalist', as Marx put it, will confront an 'industrial capitalist' within the remit of 'divergence of surplus value posited by capital'. Marxisant and heterodox discourses are in broad accord with the narrative discussed above and the imbalances that can be caused in the (national and global) cycles and flows of capital accumulation if the monies and pieces of paper in circulation do not correspond to the real values produced. Claims on future revenues are not real forms of capital and the M-M' relation ('money begetting money'), taken in its extremes as speculative arbitrage, shadow banking and other forms of Ponzi

finance, generates more problems for capitalism than it solves. 'If all money capital invests in appropriation', Harvey says, 'then capitalism is not long for this world' (Harvey 1982/2006: 269). When capitalists, that is, the personification of capital, migrate to finance to make up their profit losses from real production and commerce becoming instead 'asset managers', 'investment bankers' and derivatives speculators, then capitalism is indeed in its most vulnerable phase of operation.

We can now shed light on the interpenetration of, and contradiction between, monetary and financial systems, an area in which Harvey's 'second' and 'third-cut' crisis theory tackles well. This is of great significance, because it reveals, among others, one of the key sources of debt (both private and public). Money is not only a measure of value and a medium of circulation/exchange; it is also a form of capital – e.g. the circulation of money via banks as capital – and, as such, it possesses both 'real' and 'fictitious' dimensions. Once money becomes capital with the mediation of the banking system, then it is potentially *interest-bearing capital*, institutionalising its properties via law: it can either be lent out as capital in return for interest, while at the same time 'staying' in the bank and receiving interest. This is the first step for somebody to understand the way in which capitalism has institutionalised usury. But capitalism is a dynamic system because it operates via credit institutions with a keen propensity to lend. Capitalism encourages risk and innovation and, in its ideal-typical form, needs a constraint-free environment. The more exchange relations in commerce, banking and finance proliferate, and the more technological innovation is introduced in both markets and production, the more complicated and contradictory becomes the relationship between real value creation and imaginary value creation, between the sound base of the monetary system reflecting the circulation of real commodities and the financial operations mediated by the banking system, stock market, bond trading and 'asset management' etc, i.e. fictitious values. Banks create fictitious money and fictitious money, as we saw earlier, is as important for capitalism to survive as any other form of capital. However, as we also saw earlier, there are risks in the supply of money capital ahead of real value production. These risks increase substantially when interest-bearing forms of capital operate in conditions of generalised financialisation with transactions accomplished through the inter-banking system of commercial, investment and shadow banking. It is this that brings about a fundamental and irreconcilable contradiction in the system, a key imbalance between the monetary/money base of the system – the use of money as a measure of real value – and its financial institutions/operations – the use of money as a medium of exchange and profiteering.¹³ Obviously, this represents only a tendency. As Harvey points out, the monetary and financial systems are united within the banking system, and, within the nation state, the central bank becomes the supreme regulatory power guaranteeing the quality of money as a lender of last resort. This is why Joseph Schumpeter called the money markets and the banks as the 'headquarters of the capitalist system' (Schumpeter 1961: 126).

We can now understand better why the Euro-zone is facing the insuperable difficulties it has been facing since at least 2009: once the financial crisis – first manifested in the Anglo-Saxon world – kicked in and trickled down to the Euro-zone's banking sector and national sovereigns, the contradiction between the monetary base of the Euro-system – in theory: the quantity of Euro-money tied to real production and commodity values – and its leveraged financial institutions, both sovereign and private, imploded beyond proportion. No doubt, the crisis took such unmanageable dimensions because, unlike the cases of the USA and the UK, the EU is not a state. It lacks a (European) Ministry of Finance, which would have coordinated de-leveraging and provided (interest-free) liquidity to its embattled banks and sovereigns to stave off

the crisis. That is why the Euro-zone has suffered a massive banking crisis and a sovereign debt crisis, with its periphery states unable to arrest Germany's recycling of financial surpluses, producing and reproducing asymmetrical/disintegrative tendencies within the EU via constant sovereign debt creation and bank liquidity crises. The ECB is a bank, managing the Euro as a promisory note and controlling the interest rates on short-term Euro-deposits. It also controls the supply of money because it has its own printing press. As such, it can only lend interest-bearing money to sovereigns or other banks. The ECB can also buy government bonds – which, among others, is one of the so many plans put forth to avert the collapse of the Eurozone – but this will increase its liabilities as it will have to print more money. Any acquisition of (fictitious) assets requires the printing of money (liabilities), thus raising the spectre of Europe-wide unstoppable inflation. The Eurozone seems to be managing its business without real value creation justifying debt, that is fictitious, activity. This hardly heals financial and monetary asymmetries across the EU, as well as within EU nation states themselves, especially peripheral states, such as Greece or Portugal. Moreover, at a theoretical level, this is because in the periphery the asymmetry between the monetary system and the financial system, or, to put differently, the cleavage between real and fictitious capital/economy has been and is much larger as the periphery, and first and foremost Greece, lacks a large material production base to compensate for the fictitious economic activities of extreme financialisation, that is, present-day globalisation-cum-neo-liberal policy making at state level. On the contrary, Germany's gap between real value production and the level of debt is much smaller. The use values circulating in Germany are not reflecting the same monetary conditions in Greece and elsewhere and a Euro used in Germany does not buy the same equivalent in Greece, and vice versa. A Euro circulating in Germany is not the same with a Euro circulating in Greece or Holland. Thus, trade and financial relations between Germany, Holland and other core countries, on the one hand, and periphery/Greece, on the other, tend to widen the gap between Germany's export-led growth and Greece's borrowing requirements needed to boost domestic demand and consumption in neo-liberal times, hence Greece's large current account deficits – an important source of the country's debt. The inability of the debtor countries to devalue in a common currency bloc is a key structural cause that perpetuates and even enhances the gap between the core and the periphery.

There is an expressed and visible divergence at all monetary and macro-economic levels: prices, inflation, interest rates, pensions, debt. Value and inflation differentials are reflected in currency differentials and locking up so many different currencies together made the Eurozone implode. For instance, the higher rate of Greek inflation made Greek goods to become more expensive to Germans, while making German goods becoming much cheaper to Greeks. This leads to Germany's over-exporting capacity and Greece's over-importing consumption need. This reflects the different magnitudes of values circulating in Germany and Greece. In other words, the German economy is quantitatively and qualitatively bigger superior to the Greek and indeed any other Eurozone economy. This is the fundamental reason for Germany dominating the political economy of the Euro. *This is why the Eurozone crisis reveals Germany as an imperial power, the true leader of the EU's monetary, anti-inflationist, multi-tier economic project of expansion-cum-integration, what German officials from the early 1990s used to call, rather euphemistically, 'variable geometry'*.¹⁴ There is also a political dimension to this, in terms of decision-making. 'The fate of Europe', Martin Wolf said in May 2012, 'hangs on choices to be made in Berlin' (Wolf 2012: 11), insinuating that Germany turned imperial. Before the crisis, the issue of German financial/monetary supremacy *within and outwith* Europe could somehow be covered-

up under the façade of a 'French-German axis', European elections and pan-European institution-build-up (common fisheries policies, Common Agricultural Policy and so on).¹⁵ During the crisis, this proved impossible. In other words, the Euro is but an imperial currency dominated by Germany's monetary/material economic base. It is the superstructure rising above Germany's robust industrial and technological base. Yet it cannot survive without a state regulating the debt levels of the banks in the periphery, as well as the periphery's sovereign debt. In addition, it cannot survive without continuous welfare retrenchment and wage freezing, which was a key factor boosting Germany's export-led performance at the expense of its EU partners and especially of the periphery.

From 1999/2001 onwards, a lot of bad money (e.g. paper debt) has been circulating in the European periphery creating false impressions of growth and mediated by a credit system whose fault-lines between real and fictitious economy proved unmanageable due to the lack of a strategic centre, that is a state political form, which would have addressed the problem in a somewhat satisfactory manner reviving European capitalism. 'Crises of every kind', Lenin wrote, and 'economic crises more frequently but not only these, in their turn increase very considerably the tendency towards concentration and monopoly' (Lenin 1917/2008: 29). Germany may well steer developments towards, on the one hand, a Euro-core dominated by its industrial and monetary power, turning the Euro into a relatively hard and stable global currency and, on the other, towards an impoverished periphery seeking 'special' subaltern arrangements with the core. But even in this scenario of German power 'concentration and monopoly', as Lenin would call it, structural problems will remain, as no capitalist system can ever solve crises of over-accumulation and the tension between the monetary base of the system and its financial operations. We can now move on to shed light on Harvey's 'third-cut' crisis theory.

From the perspective of uneven global and regional class relations, one could argue that a notional source of debt is caused by a straightforward exploitation of the periphery and semi-periphery by the imperial core. In this context, and in absence of a successful and robust import-substitution policy, peripheral states such as Greece or Chile always lag behind and have always to borrow from the core in order to offset disadvantages in technology, innovation, infrastructure and skills. Imperialism, in this respect, was and remains appropriation of international value.¹⁶ But the notion of 'periphery' and/or 'semi-periphery' is spatial, dynamic and geopolitical, not topological, static and geographic. It is to be found within states in the form of a geographical split (e.g. Italy's advanced North and underdeveloped South), or in the form of the cleavage between 'city' and the 'countryside'. In a sense, it also applies to the entire globe, as pockets of advanced industrial and service sectors may be concentrated, in specific periods of time, in some parts of the world and not others (e.g. the Euro-Atlantic core, Japan and Australia/New Zealand as opposed to the 'Third World'). What could be considered as periphery in 1960 – weak industrial and technological base, under-developed liberal political institutions, concentration of poverty etc. – may not be a periphery in 2010 and vice versa: massive elements of under-development, poverty and deprivation have always existed within the core and the industrial cities of the core, from England's Manchester during the era of industrial revolution and after to present day New York and Los Angeles. But if this is the way in which capital's uneven (and combined) development operates nationally, regionally and globally, we should also take into account something already pointed out earlier, namely that capital has an opposite, innate tendency towards centralisation/concentration in order, among others, to offset competition with other

capitals of the core and to outflank working class resistance. This contradiction is worth noting and we must provide some analysis of it.

In the structural context of fierce (horizontal and vertical) competition, capital is ramifying its own crises, both nationally and internationally, along the lines of *uneven (and combined)* development.¹⁷ Building on the important work and findings carried out in the 1980s by Andrew Glynn, Philip Armstrong, John Harrison and others, Robert Brenner argues that the financial crisis that began in 2007 has at its roots the inability of the US non-financial corporate sector to return to pre-1970 levels of profitability. According to Brenner, 'from the start of the long downturn in 1973, economic authorities staved off the kind of crises that had historically plagued the capitalist system by resorting to ever greater borrowing, public and private, subsidizing demand' (Brenner 2009: 2). There had been a 'persistent stagnation' from 1973 to 1993 that the Clinton administration had only partially managed to stop, as indeed under Clinton briefly a return to profitability and growth seemed to be in hand. But Clinton's experiment did not take root, and to all intents and purposes it never matched, or even came closer to, the so-called 'Golden Age of Capitalism' of the 1950s and 1960s. Brenner tells us that both the Golden Age and the crisis of what he calls 'overcapacity/overproduction' was the result of *uneven development*:

From the very beginning, then, uneven economic development did entail the *relative* decline of the US domestic economy. But it was also a precondition for the continued vitality of the dominant forces within the US political economy. US multinational corporations and international banks, aiming to expand overseas, needed profitable outlets for their foreign direct investment. Domestically based manufacturers, needing to increase exports, required fast-growing overseas demand for their goods. An imperial US state, bent on "containing communism" and keeping the world safe for free enterprise, sought economic success for its allies and competitors as the foundation for the political consolidation of the post-war capitalist order, in the face of the anaemia of domestic ruling classes sapped by war, occupation, collaboration and defeat. All these forces thus depended upon the economic dynamism of Europe and Japan for the realization of their own goals (Brenner 2003: 14-15).

In other words, the profit squeeze and *stagflation* (high inflation accompanied by stagnation) of the 1970s was not due to high wages as neo-liberal orthodoxy argued, but the result of global inter-capitalist competition. Moreover, and whereas Nicos Poulantzas, Michel Aglietta and others in France and Germany writing in the 1970s discerned the state to act as a counter-tendency to the tendency of the rate of profit to fall, Brenner confirms that state intervention, and the US state intervention in particular, failed not only to stave off the crisis of – what he calls – 'over-capacity/over-production', but it also set capitalist states and economically integrating zones one against the other (US – Western Europe – Japan). In other words, the new strong capitalist-economic caucuses that flourished at each end of Eurasia during the 'Golden Age' began undermining the supremacy of the USA in international political economy. The result of this global capitalist competition was stagnation, falling rates of profit and a 'long downturn', the sole exception being the brief Clinton years, which registered a growth in manufacturing induced by increased levels of borrowing.

All in all, the tendency of capital towards uneven and combined development is as unstoppable as its tendency towards centralization/concentration. Ernst Mandel put it as follows:

[Thus] even in the ideal case of a homogeneous beginning, capitalist economic growth, extended reproduction and accumulation of capital are still synonymous with the juxtaposition and constant combination of development and underdevelopment. *The accumulation of capital itself produces development and underdevelopment as mutually determining moments of the uneven and combined movement of capital.* The lack of homogeneity in the capitalist economy is a necessary outcome of the unfolding laws of motion of capitalism itself (emphasis by Mandel) (Mandel 1972/1976: 85).

Having said that, it is safe to argue that combined and uneven development applies to both 'core-core relations' and 'core-periphery relations', precisely because the 'law of value' applies to all capitalist economies, whether 'developed' or 'under-developed'. This is very important because we are confronting again the following contradiction: on the one hand, capital's motion pertains to uneven/asymmetrical development, hence a unification of the world or a specific region under a supra-national governance is an impossible undertaking; on the other, capital, in its effort to outflank and out-compete other rival capitals, has a tendency to concentrate/centralise, hence its attempts to create regulatory institutions of 'global/regional governance' – the 'Concert of Europe' in the 19th century, the League of Nations between the wars, IMF, WTO, the UN, the EU, ASEAN etc. the list is endless. When Lenin was confronted with this innate contradiction of capital and imperialism, he always took sides with the 'law of uneven development'.¹⁸ At the same time, however, as we saw earlier, he did not fail to note that economic and political crises increase 'the tendency towards concentration and monopoly'. Bukharin is equally explicit:

Kautsky and his followers assert that the very process of capitalist development is favourable to the growth of elements that can serve as a support for ultra-imperialism. The growth of international interdependence of capital, they say, creates a tendency towards eliminating competition among the various 'national' capitalist groups. This 'peaceful tendency, they say, is strengthened by pressure from below, and in this way rapacious imperialism is replaced by gentle ultra-imperialism (Bukharin 1917/2003: 145).

This tension within Marxist and Marxisant theorisations of imperialism and neo-imperialism can also be found, certainly under different shapes, forms and concepts, within mainstream Anglo-Saxon scholarship in the field of IR and IPE. This is not the place to review these approaches in detail, but it is worth pondering over them to the extent that such an effort serves the purposes of grasping a wider gamut of approaches on the subject of trade imbalances and imperialism, as well as their substantive deficiencies.

The broad divide here is between *liberal/cosmopolitan/'democratic peace'* theories of globalisation and inter-dependence, on the one hand, and *realist* and *neo-realist* theories, on the other. The first cluster seems to somewhat match the ultra-imperialist – 'social democratic', so to speak – current within Marxism, whereas the realism/neo-realism cluster corresponds better to those Marxists and Marxisants who subscribe to the theory of uneven (and combined) development. Liberals and globalisers see the increase in the volume of trade transaction across the globe as a requisite for further cooperation and inter-dependence among states, a process that

demands more and more 'issue-specific international regimes' regulating these complex inter-dependency processes.¹⁹ The premise for realists and neo-realists is that the international system is anarchic and, as such, it is prone to conflict with all states agonising about how best to survive. They insist on the centrality of the state in international politics and trade and see national economic and political interests and unequal/uneven balance (and distribution) of power as causes of war and conflict.²⁰

However, none of those approaches can match the analytical and critical rigour of their 'respective' pairs within the Marxist tradition, broadly understood. As far as the liberals/globalists are concerned, their analyses are flawed by the emphasis they give in trade relations and markets – whether 'real' or fictitious – as permanent, historical factors of integration leading to 'global governance', 'global civil society' and peace. Their 'political-theoretical' approach is often tainted by 'human rights' discourses used by USA and NATO elites to justify military interventions across Eurasia after the collapse of the Soviet bloc. Some realists and neo-realists, on the other hand, work on the false assumption of an anarchic global political market composed of state units and great powers constantly trying to maximise their power-share in the international system, something which causes war and the demise of those powers. Such, for example, is the position of prominent 'offensive realist', John Mearsheimer. In this internecine battle for power maximisation and survival the winner, presumably, destroys the loser, yet, this is empirically flawed: the USA did not destroy Japan or Western Germany after it defeated them in WWII. Quite the opposite: it reconstructed them because the aim was to create open markets and consumers for its own capital surpluses, thus creating a political economy abroad after its own home image.²¹ Eventually, both liberals/globalisers and realists can be seen as the flip side of the same coin: the former see the dominance of markets and trade as units of integration and cooperation, both regionally and globally; the latter see the dominance of the global political market, which is composed of (classless) state units in an anarchic international system, with a propensity to developing and distributing power unevenly. Arguably, the concept of the market dominates both approaches and this is not the case within the Marxist tradition, broadly conceived.

Capital looks for investment opportunities not in saturated markets but in new markets and these markets can be found anywhere, not necessarily in the developed core alone or exclusively in the under-developed zones of the global South. Thus, the geography of uneven (and combined) development sets in and capital displaces its crisis. This is the point in which Harvey goes beyond Marx: by way of appropriating new production and regional and global distribution sites, capital is effecting a 'spatial-temporal fix', reducing its crises to 'minor switching crises as flows of capital and labour switch from one region to another, or even reverse themselves, and spark regional devaluation' (Harvey 1982/2006: 428).²² This is only temporary, Harvey says:

The problem, of course, is that the more capitalism develops, the more it intends to succumb to forces making for geographical inertia. We here encounter a version of that contradiction that Marx described as the domination of dead over living labour. The circulation of capital is increasingly imprisoned within immobile physical and social infrastructures which are crafted to support certain kinds of production, certain kinds of labour, processes, distributional arrangements, consumption patterns, and so on. Increasing quantities of fixed capital and longer turnover times on production check uninhibited mobility. The growth of productive forces, in short, acts as a barrier to rapid geographical re-structuring in exactly the same way as

it hinders the dynamic of future accumulation by the imposition of the dead weight of past investments. Territorial alliances, which often became increasingly powerful and more deeply entrenched, arise to protect and enhance the value of capital already committed within the region (Harvey 1982/2006).

Let us look at the key ingredient of United States' international policy since at least the 1890s. When US Secretary of State, John Hay, promulgated an Open Door policy in 1899 for the United States challenging the monopoly of China's market by Europe's imperial powers, he did so under pressure from big individual capitals at home, which required substantial overseas expansion to overcome their crisis of over-accumulation and profitability in the 1890s.²³ Open Door has since been a structural feature of US foreign policy projected across the globe and not just in Europe or Japan. Since the 1890s, Open Door has been a key component of the strategic culture of US policy-makers. It is an expression of the domestic needs of US capital, *whether industrial/technological or financial, real or fictitious*, that seeks investment outlets abroad and unfettered, unprotected markets. It is a policy that goes *pari passu* with that of 'expanding liberal democracy abroad' and 'defending human rights', inasmuch as if liberal and democratic principles are not adopted across the world, then American democracy is in danger at home – or at least that is how US elites perceive global and regional realities.²⁴ Open, unprotected markets free of state intervention and open, liberal polities are the ideal conditions for US capital and political and military agencies to penetrate and establish themselves within the polities and economies of other capitalisms in order to determine their direction. Free markets, whether industrial, corporate or banking/financial, and open polities friendly and subservient to the hegemonic power underscore perfect conditions for the exploitation of labour and, importantly, perfect conditions for US capital to overcome its over-accumulation crises. This is what capital wants and seeks abroad if it cannot find it at home. If possible, capital wants to have zero production costs and zero risk. Marx put it as follows: '[This] zero cost of labour is therefore a limit in a mathematical sense, always beyond reach, although we can always approximate more and more nearly to it. *The constant tendency of capital is to force the cost of labour back towards this absolute zero*' (our emphasis) (Marx 1867/1976: 748). Is it not exactly this that financial capital and the state are trying to achieve with their policy of severe austerity they impose across Europe today?

Global fault-lines and the imperial geopolitics of debt

'World system' theories and Fernand Braudel's work are important because their narrative aims at advancing a global analytical perspective, going beyond the narrow horizon of nation states and national economies. They analyse global imperial systems and, some of them, provide a cyclical interpretation of power-shifts occurring within and between the structures of those systems. Cyclical theories of crises are present in the work of many Marxists – see, for instance, Kondratieff's work and how Immanuel Wallerstein has used Kondratieff waves to interpret the financial crisis that set off in 2007-08.²⁵ But Marx himself had had some interesting thoughts regarding the regular return of crises under capitalism affecting specific business cycles. For example, he writes:

The factory system's tremendous capacity for expanding with sudden immense leaps, and its dependence on the world market, necessarily gives rise to the following cycle: feverish production, a consequent glut on the market, then a contraction of the market, which causes production to be crippled. The life of industry becomes a series of periods of moderate activity, prosperity, over-production, crisis and stagnation (Marx 1867/1976: 580).

And again in a footnote inserted in the French edition of the first volume of *Capital* in 1872:

[But] only after mechanical industry had struck root so deeply that it exerted a preponderant influence on the whole of national production; only after foreign trade began to predominate over internal trade, thanks to mechanical industry; only after the world market had successfully annexed extensive areas of the New World, Asia and Australia; and finally, only after all this had happened can one day the repeated self-perpetuating cycles, whose successive phases embrace years, and always culminate in a general crisis, which is the end of one cycle and the starting-point of another. Until now, the duration of these cycles has been ten or eleven years, but there is no reason to consider this duration as constant. On the contrary, we ought to conclude, on the basis of the laws of capitalist production as we have just expounded them, that the duration is variable, and that the length of the cycles will gradually diminish (Marx 1867/1976: 786).²⁶

Marx, nevertheless, never produced a theory of imperialism or a theory of cyclical and recurring crises. Of all those trying to produce such a narrative, Arrighi's work stands out, because he does not simply invoke *long durée* – i.e. long macro-historical cycles registering and analysing periods in which 'real' and 'fictitious' capitals alternate in the domination of socio-economic and political orders in history. In addition to that, and while remaining within a Marxist framework, he expands Braudel's insights by applying them into 19th and 20th century global politics. Arrighi's monumental trilogy captures the long historic and hegemonic decline of the United States, whose policies of globalisation and neo-liberalism are incapable of arresting.²⁷ Arrighi and Beverly Silver describe how great powers rise and fall through successive historical cycles linked to periods of economic crisis, whether these crises are manifested in the real economy, thus captured by Marx's and Harvey's 'first-cut theory' of over-accumulation, or in the fictitious economy, captured by Harvey's 'second-cut theory' of financial and credit crises. Importantly, Arrighi, same as Gunder Frank and Wallerstein, does not believe in a strict separation between modern and pre-modern eras. Imperialism and empires can flourish very well under both commercial (pre-capitalist/pre-modern) and industrial (modern/capitalist) regimes. Thus, both capitalist and commercial empires in history moved through phases of productive or commercial expansion and through phases of slowdown and deceleration marked by financial expansion. The key contention here is that each time, especially in capitalist/modern history, empires expand their power, they do so on the basis of their lead in the industrial-productive sector, whereas when a phase of contraction and crisis opens they are forced to resort to financialisation in order to stave off crises in commerce or industry. But resort to banking and finance, Arrighi and Silver argue, never manages to restore the global primacy of the empire – Robert Brenner would add: it also never manages to restore

previous levels of profitability enjoyed under the years of industrial expansion. All in all, resorting to finance simply delays the empire's decline and fall, and this is the case with the US empire at present.

This argument of cyclical and recurrent patterns is better refined in Arrighi's *Adam Smith in Beijing* (2007), and in two other contributions written shortly before his death (2009).²⁸ Arrighi adopts Braudel's periodisation of capitalism, identifying three periods of financial expansion: the first was under the hegemony of Italian city-states in the mid-16th century; the second was centred on Holland (mid-18th century); and the third, in the late 19th century, was driven by the United Kingdom. We are interested here in discussing the third period, because it is a period that came into being as a result of the over-accumulation crisis in the United Kingdom (and other core Western capitalist centres), and ended with the 1929-32 financial crash. This is also a period in which *capitalism as a mode of production* is operating in full, whereas all previous 'Braudelian' periods described by Arrighi and other 'world systems' theorists are social and historical epochs structured alongside the dominance of *commodity exchange relations*.²⁹

The beginning of each financial expansion, Arrighi says, indicates the 'signal crisis' of the global hegemon in the system. For example, the 'switch' to finance at the end of the 19th century signalled the beginning of the 'terminal crisis' of the British Empire. The financial meltdown of 1929-32 signalled the beginning of the end of the dominant regime of accumulation, or in other words the end of the hegemony of the UK system of global governance, and its subsequent succession by the new global industrial and credit power, the United States. Similarly, the US-led process of post-WWII capitalist accumulation, centred on industrial development and growth in all core capitalisms, gave way to financialisation and, therefore, a protracted period of US hegemonic decline began since the 1970s ('the signal crisis'). This crisis of financialisation at present is but the 'terminal crisis' of the US-led system of accumulation. In short, this is Arrighi's *Long Twentieth Century* concept. His *Adam Smith in Beijing* is a courageous and powerful intellectual attempt to show that the new rising global leader to take over from the US is China – a position also shared by Harvey. China is the new global centre of material accumulation of wealth, and potentially, of political/military power, a view to which many scholars, including non-Marxists, such as John Mearsheimer, subscribe wholeheartedly but without adopting any Braudelian, or indeed Marxisant, perspective. Significantly, Arrighi has dedicated his last book to Andre Gunder Frank, another major exponent of the global power-shift to Asia.

We have shown elsewhere that Arrighi's work does not factor in geopolitical and security issues as constitutive variables of hegemonic transitions, crises and conflict.³⁰ His historicist-cyclical approach disallows counter-factual history – for example: what if Germany (and Japan) had won the first or the second world war? Moreover, it cannot capture the spread, depth and asymmetrical rate of development of economic power relations at the present juncture, including Germany's neo-imperial monetarist aspirations in Europe. We need, therefore, to supplement his argument by introducing the structuralist problematic of *global and regional fault-lines* in which instances and units of the whole – politics, culture, ideational elements, political economy, geopolitics and security – are constantly interacting producing and re-producing equilibria and disequilibria and defining periods of relative peace and prosperity and periods of crisis, war and socio-political upheaval. Hegemonic transitions and regional distributions of class power take place within this context, which is not necessarily determined by the cyclical and historicist pattern of recurrence of Braudelian historiography.³¹

We can now move on to build upon Harvey's 'third-cut' theory of 'spatial fix' and 'accumulation by dispossession'. Building upon this, we can advance and test our argument that substantiates geopolitics and security as *constitutive variables* in the determination of debt creation. This is especially pertinent in countries such as Greece, the Balkans or Middle Eastern states, whose geo-political value throughout their modern history has far outstripped their industrial or financial robustness. In short, we argue that global fault-lines help us build into the structure and flow of capital relation a new set of contradictions and determinations which are pertinent in understanding the overall unfolding of a crisis situation, including debt crises. Thus, we can decipher the ways in which geo-politics, at times, contradicts the requirement of real capital formation creating fallacies, notional strategic deficiencies and misconceptions that come to haunt policy-making elites, whether national or imperial/international, for a long time. The main institutional structure in which geo-political and security dimensions of debt are crystalised is the defence budget of a state. Matters, obviously, become extremely complicated when the state formation in question is a subaltern state dependent upon imperial arrangements but whose security and geo-politics outweigh its political economy – which is the case with Greece. From this perspective, global fault-lines straddle the contradiction between the monetary base of the capitalist system and its financial superstructures making the situation even more explosive and precarious. But precisely for this reason, global fault-lines add onto the lenient and resilient dimension of capital, strengthening its sinews in time and space. What makes capital weak and vulnerable is what makes it at the same time strong and durable. There is no single causal theory of crisis formation and our global fault-lines argument asserts precisely this. From a theoretical perspective, this is, we argue, the case of Greece and the Euro-zone today.

It should be clear by now that debt is a form of fictitious capital and national/sovereign debt is fictitious capital *par excellence*. In a certain ideal-typical form, debt is a type of imaginary capital whose magnitude results partly from borrowing in order to cover deficits.³² Think of John, an immigrant working in a car factory in Detroit, borrowing \$10,000, interest-free, from his old friend from London, Paul, to decorate his house and fix the damp, because his modest wage disallowed any savings. But then John is unable to pay the money back on the set date as stipulated by the private agreement signed with Paul. So John has a deficit. Then John, unable to pay his dues, opts to go to the bank to borrow \$10,000 at 8 per cent interest in order to pay back Paul. He then pays Paul half the amount, \$5,000, because he needs the rest of the money to pay the decorators. But the amount he borrowed from the bank and the monthly interest accrued become an even more unbearable burden for John because his salary is not enough to provide the means for his own subsistence while keeping up with regular payments to the bank, on top of paying the decorators. This means that John cannot service his debt obligation. He also has a \$5,000 deficit to Paul. In this case, John has either to declare bankruptcy; or do something and get the bank to cancel his debt – which is unlikely; or convince the bank to reduce the principal (\$10,000) – also unlikely; or convince the bank to cut the interest rate down to an affordable level and roll over his debt – which is possible but no-one can guarantee that this is an optimal solution for him, as his living conditions will keep worsening. If none of this happened, then the bank would have to start re-possession proceedings (e.g. re-possessing John's belongings, such as property, land etc.). But John, as we saw, has also the option of declaring bankruptcy. This means that he will be put on the 'black list' of every bank in the country; he will not be able to borrow again; and he should consider finding a better-paid job, so that he can finally fix the damp in his house before it caused irreparable damage. Obviously, matters are far more complex

when we substitute John with the Greek state; John's salary and Paul's interest-free loan to John with Greece's fiscal deficit; Paul's decorators with Greece's civil servants and, finally, when we substitute John's bank with Greece's private and international lenders (IMF, ECB, the EU) on terms stipulated by the class interests of bond-dealers and creditors.

However, even in this example, we can still discern, in a primitive and raw form, Harvey's main theoretical proposition, namely the tension between 'the financial operations of the system and its monetary underpinnings'. John's wage is the 'price' of his labour-power and, as such, it has produced real value, so it constitutes the solid monetary base of the system in the realm of circulation of equivalences. Nevertheless, the financial operation under way seems to be creating a bubble, a 'fictitious superstructure' above this base, which substantially diverges from John's ability to pay offering the 'price' of his 'labour-power' as a collateral. Matters, as we saw earlier, come to a head when the bank's interest-bearing capital comes to the fore. But the aforementioned visualisation does not include the *location* of John's house. At this level of abstraction, capital is disinterested in geography, although, as we know, fictitious capital is very interested in house speculation and house prices are inflated to serve the interests of fictitious capital according to the property's location: although both in Manhattan, New York City, rentier interests price an one-bedroom flat in the Upper East Side four times more than a flat of similar size and quality in Inwood.

Harvey, by elaborating on Marx's, Hannah Arend's and Rosa Luxemburg's work, offers some further insights without exiting his 'third-cut' theory framework:

Capitalism survives (...) not only through a series of spatio-temporal fixes that absorb the capital surpluses in productive and constructive ways, but also through the devaluation and destruction administered as corrective medicine to what is generally depicted as the fiscal profligacy of those who borrow. The very idea that those who irresponsibly lend might also be held responsible is, of course, dismissed out of hand by ruling elites (Harvey 2003: 135).³³

This, Harvey says, is a form of 'capital bondage' and, we could add, applies directly to core-periphery relations both within the EU and globally. Brushing aside liberal (functionalist and neo-functionalist) views about the so-called 'process of European integration', the truth of the matter remains that the industrial core of the EU, that is primarily Germany under the geopolitical and security tutelage of the USA via NATO, pushed for expansion seeking 'temporal-spatial fixes' in order to overcome crises of over-accumulation and devalue. Problems, nevertheless, soon accumulate when the periphery, whether Southern or East European, needs to borrow from the core in order to consume products of the core. Then 'capital bondage' is on the doorstep of the periphery: John has to pay or, as Christine Lagarde, the IMF chief, put it just before the crucial Greek election of 17 June 2012 in order to terrorise the electorate and push it away from the radical left of Syriza: 'Greece, it's payback time'.³⁴

Harvey expands Marx's category of 'primitive accumulation', which he recasts as 'accumulation by dispossession' and asserts that whereas capital is always producing crises, it, at the same time, has the ability and the resilience to move them around, resembling the way in which capital can 'solve' the housing question by moving population around in the very same city.³⁵ This is part of what we have called the 'sinews of capital'. 'Primitive accumulation' is a term Marx used to describe the early stage, or the 'pre-history' of capitalism, a kind of a violent transition period – for Marx, the birth of capital had been anything but peaceful – in which the mass pauperisation

of peasant societies, whether in metropolitan accumulation centres or in colonies, occurred while attempting to adapt to the new social conditions imposed by capital, reign supreme. 'Primitive accumulation' includes a number of processes, such as the creation of national debt in the colonies, land reform and changes in property rights, commodification of labour-power, introduction of a credit system and institutionalisation of usury etc. But Harvey, as opposed to Marx, says that capitalism contains repeated instances of 'primitive accumulation' and that this condition is recurrent and repetitive occurring in periods of severe crisis and hitting popular strata whether in urban conurbations in advanced capitalist societies, or in peripheral countries. This is what invigorates capital. Soon after the collapse of the Soviet Union, East-Central Europe experienced the barbarity of 'accumulation by dispossession' via Jeffrey Sachs 'shock therapy' programme.³⁶ The process of extreme financialisation that began after 1971-73 is another instance, whereas neo-liberal policy-making and privatisation, Harvey says, is the 'cutting edge of accumulation by dispossession'. Harvey sounds more than prophetic, given that he was writing this in the early 2000s, when the property bubble in the United States, the UK, Spain and elsewhere was in full swing. But he, as well as other scholars, such as Peter Gowan, could sense that the massive contradictions of financialisation-cum-neo-liberalism, manifested in periodic bail-outs and orchestrated crises of capital devaluation (e.g. South-East Asia), at times even via wars (e.g. Yugoslavia, Afghanistan, Iraq), would soon implode. Thus, what appears to be capital's strength turns out to become a weakness.

However, we part ways with Harvey in that he sees geopolitical space and, by extension, geopolitics and security as an extension of capital's extended reproduction and continuous accumulation. As such, capital presents an omnivorous propensity, looting and squatting every space, every corner and, for that, requires an accumulation of political power to protect it and its very (extended) reproduction. From this perspective, geo-politics and the capitalist state seem entrapped in the pincers of capital's extended reproduction, reduced to being a mere instrument in the structural imperial power of capital. But geo-political space has a 'value' in itself, namely, a security value, well before it becomes engaged in projects driven by capital and capitalist political power. In theory, and if we set environmental problems aside, there is always space (outer, subterranean, oceanic) and resources (oil, gas, hydrocarbons, and more recently shale gas) available for capital to exploit and, as Marx put it, 'capital grows to a huge mass in a single hand in one place, because it has been lost by many in another place' (Marx 1867/1976: 777).³⁷ But capital and state imperial power have the tendency to move and concentrate in certain places and not others, simply because of the geo-strategic value of the place per se. Geo-strategy, that is, the strategic management of geo-political interests, comes into play only when specific imperial agencies and decision-making centres call upon it. Thus, geopolitical space has the capacity to attract political and economic projects, because it is perceived as geo-strategically important by key bureaucratic centres within the imperial system (state power and agencies, policy-makers, various fractions of capital and business interests directly involved in policy-making). Capital, as Benno Teschke has convincingly argued, has de-territorialised international surplus appropriation – read: imperial projects – but this de-territorialisation has been 'geopolitically mediated' (Teschke 2003: 264). In other words, geo-politics has a relative autonomy from capital's extended reproduction across capitalist time and space and political power and capital accumulation do not always converge. There is, primarily, imperial power and capital concentration in the Persian Gulf because of the geo-politics of oil, not because of any innate tendency of capital, whether imperial or local, to occupy that space to dump its surplus production in order to devalue. If instead of oil – a geo-political category *par*

excellence – the Middle East produced dates then imperial power and international capital would have had no reason to be there. ‘Our paramount national security interest in the Middle East’, a 1995 US Department of Defence report stated, ‘is maintaining the unhindered flow of oil from the Persian Gulf to world markets at stable prices’ (Office of International Security Affairs 1995: 6). The only missing element in the statement is that these ‘prices’ have to be denominated in *US dollars*. A global monetary/money dimension – ‘the dollar’ – is then linked directly to a geopolitical commodity – ‘the oil’ – co-determining imperial power relations and the global hegemony of the USA. Defence and pharmaceutical industries come into equation immediately when we invoke the issue of wars in the Middle East and Central Asia. In the main, this is the problematic of ‘weapon-dollar/petro-dollar coalition’ developed by Jonathan Nitzan and Shimshon Bichler, a problematic co-determined by IPE-cum-geopolitics.³⁸

The relative autonomy of geopolitics from capital’s (cyclical) movement under capitalism creates structural fault-lines in the system and increases its existing tensions, already manifested in the three theories of crises examined above. Our argument enhances Harvey’s approach as much as it does Arrighi’s one. More to the point, we argue, geo-politics is directly related to the issue of debt creation. What was the rationale, asks Alec Rasizade, for sustaining a particular type of policy over Caspian oil in the 1990s exaggerating the amount of oil and gas that really exists in the Caspian Sea region?

The first reason is geo-political. In the so-called Silk Road Strategy Act of 1999, Transcaucasia represents an important geo-political isthmus, linking the Black Sea and Caspian seas and providing the West with a ‘silk road’ to Central Asia. By reanimating the silk road, which would avoid passing through Iran (historically its integral part), Washington is trying to limit Russia’s influence in the region, while at the same time restricting the number of potential allies for Tehran (...). Secondly, the interest of international oil companies in sustaining the Caspian energy phantom can be easily explained by their motivation of profit. All of these ventures are joint-stock companies and shareholders of those companies derive their main profit not from increasing dividends based on successful commercial activity, but from rising price of their shares on the stock exchange and oil futures on the mercantile exchange. This is the very essence of Western business investment in the Caspian Basin. By participating in high profile Caspian projects and issuing rosy reports of great resources, oil companies improve their stock image, generating an instant profit without pumping a single barrel of oil. In fact, to begin seriously extracting oil would be counter-productive given the danger that the true extent of oil reserves would then be exposed (Rasizade 2005: 3-4).

Thus, capital makes fictitious profits out of geopolitical opportunities widening the gulf between the monetary base of capital and its financial manifestation. In the example given above, even *ideational* elements come into play, when financial journalists and analysts of all sorts exaggerate in their feasibility study reports the amount of oil and gas that really exists in the Caspian Sea region in order to increase speculation in the stock market. This is how the imperial geo-politics of oil becomes a *direct* contributor to society’s debt.³⁹

Having said this, it also seems to us that Harvey underestimates the *relative autonomy of the state*, especially of the imperial state, to make geo-strategic decisions based on geo-political and security considerations, rather than the class interests of capital and its fractions as such. In this respect, Harvey avoids to put forth an analysis of the state, viewing instead the state, geopolitics and capital as congruent entities swallowed up by the capital-form. This perspective, however, does not help us understand fully NATO's and the EU's eastward enlargement processes; NATO's 'humanitarian war' over Kosovo; the USA's invasion of Afghanistan; the Suez Canal crisis in 1956, the list is long enough. Could somebody reasonably argue that Latvia or, for that matter, Greece and divided Cyprus, entered the EU primarily because German capital sought market space to devalue its surplus capital, thus overcoming over-accumulation crises? This is definitely not the case, at least not primarily. German, French and other core polities in the EU took these and a number of other decisions also by taking into account geo-political and security factors, and following NATO's instructions. As Peter Gowan has shown, the primary consideration of the Euro-Atlantic heartland in the 1990s was how to stabilise hub-and-spoke arrangements in East-Central Europe by way of excluding Russia and its client states, such as Serbia.⁴⁰ Thus, NATO's war over Kosovo was bound up with NATO's eastward drive, hence it had been a matter of Euro-Atlantic security to exclude Russia from the Balkans via eliminating Serbia's pro-Russian elites. But the mismatch/contradiction between geo-political structures, on the one hand, and capital formation, on the other, is systemic and straddles the mismatch/contradiction between the monetary base of the system and its financial operations, so eloquently analysed by Harvey himself. This exemplifies further our notion of 'global fault-lines' and applies directly to our research agenda on the crisis of Greece and the EU. In the event, *global fault-lines is the discursive articulation of economic, political, ideational and geo-political instances in a social formation divided into classes and determined by social struggle*. Global fault-lines pave the ground for severe tensions and imbalances in the instances concerned, especially when severe economic crises kick in, upsetting the entire discursive articulation of the instances.

From the theoretical perspective of global fault-lines, the political economy and imperial geo-politics of the Euro-Atlantic heartland has been under-going a slow and painful decline since the late 1960s, which the collapse of the Soviet bloc not only failed to arrest but, on the contrary, made it even more pronounced. A great part of the US-led Cold War apparatus rested on the ideational scheme of the 'global war on Communism'. With the disappearance of this ideational peg and its unsuccessful and unconvincing replacement after 9/11 with the 'war on terror', the (ideational) glue connecting the USA and West Eurasian rimlands seems to have gone. Moreover, the geo-political expansion of the West in Eurasia (via NATO) and the greater Middle East (via wars and establishment of military bases) has not been a sign of strength but a sign of weakness highlighting the deep contradictions guiding the alliance and USA's policy in Eurasia after the end of the Soviet Union. This expansion over-stretched US military capabilities and weakened the Cold War hub-and-spoke arrangements the USA had built across each end of Eurasia, with its Japanese bastion in the Far East and NATO's presence in Europe and the Near/Middle East, which includes Greece and Turkey. And as this grand strategy was pegged on neo-liberal economics and extreme financialisation from the late 1970s onwards, thus lacking any political cohesion and demand-led components, when all these pegs imploded, the projects of expansion and profit-making upon which German-led core European capital has invested so many hopes went also down the drain. It is important to note that both globalisation/financialisation and neo-liberalism are not conducive to growth, hence

they are directly connected with the creation of debt in the entire Euro-Atlantic zone (USA + EU). Commodification of financial products and extreme manipulation of financial instruments for easy profiteering are more conducive to debt creation rather than growth, and this is something that applies across Europe and the USA, not just Greece. With its manufacturing base eroded and outsourced to the 'global East', the debt problem seems to becoming a permanent feature of the 'global West'. The production of real use values has shifted to Asia and elsewhere and herein lies our argument of the decline of the West. But in the juncture that opened up with the current financial crisis (2007-), the disintegrative tendencies of both NATO and the Euro-zone are indeed very pronounced, undermining directly the *primacy* of the USA in international relations and the emergence of a number of other centres of regional (e.g. Germany) and even global (e.g. China) power. Simply put, Marx's value theory, which captures the convergent and divergent flows of capital-labour relations generating and solving a number of (cyclical) crises in capitalist time and space while shifting the terrain of global hegemony, proved to be victorious once again.⁴¹ Presently, the sinews of capital are tested by their ability to re-invent themselves against all odds and at the expense of the labour movement in Greece, Europe and the globe.

Notes

¹ In *Capital* Marx defines the relation M-C-M' as representing a sum of money used to buy a commodity which is resold to obtain a larger sum of money (M'). The relation M-M' means money lent out at interest to obtain more money, or one currency or financial claim traded for another. The relation C-M-C' represents a commodity sold for money and buying another, different commodity, with an equal or higher value (C'). Commodities are repositories of value which is a crystallisation of socially necessary labour time. Value is always social.

² Drawing from the work of Joseph Schumpeter, many economists and heterodox political economists disagree with this claim. Broadly speaking, the argument goes as follows. Schumpeter pioneered a theory of economic development and value creation through the process of technological change and innovation. Disequilibrium results from innovation. According to Schumpeter, innovation means value creation and the notion of 'creative destruction' denotes that, because of technological change and innovation, certain rents become available to entrepreneurs, which later diminish as innovations become established practices in economic life. See, for example, Raphael Amit and Christoph Zott (2001) 'Value creation in e-business', *Strategic Management Journal*, 22, pp.493-520.

³ 'The smaller the portion exchanged for living labour becomes', Marx says in the *Grundrisse*, 'the smaller becomes the rate of profit. Thus, in the same proportion as capital takes up a larger place as capital in the production process relative to immediate labour, i.e. the more the relative surplus-value grows – the value creating power of capital – the more *does the rate of profit fall*' (emphasis by Marx); Karl Marx (1957/1973) *Grundrisse* (Harmondsworth: Penguin), p.747.

⁴ Further comments on this by Alex Callinicos (2009) *Imperialism and Global Political Economy* (Cambridge: Polity press), pp.53 ff. A number of key works by Marxists since the 1950s has focused on this aspect of Marxist theory to explain economic crises. See, especially, Philip Armstrong, Andrew Glyn and John Harrison (1984) *Capitalism since World War II* (London: Fontana), Fred Moseley (1992) *The Falling Rate of Profit in the Post-War United States Economy* (New York: St. Martin's Press); Robert Brenner (2006) *The Economics of Global Turbulence* (London: Verso); Andrew Kliman (2007) *Reclaiming Marx's Capital; A Refutation of the Myth of Inconsistency* (Lanham, MD: Lexington Books). We discuss these works in detail in Vassilis Fouskas and Bulent Gokay (2012) *The Fall of the US Empire* (London: Pluto).

⁵ From this purely theoretical perspective, every capitalist country is part of an imperial chain and is, potentially, imperialistic. This is, of course, historically and empirically, inaccurate. The

fact that Greece exports sheep yogurt to the United States does not make her an imperialist country. Bukharin and Lenin refer to the imperial chain composed of the great powers of their time and Lenin is especially careful in examining the degree of dependency of subaltern states upon core capitalist states in both his book *Imperialism*, quoted above, and his *Notebooks on Imperialism*. Yet such theoretical formulations can be misconstrued and interpreted as if all capitalist states are, in reality, the same. See, for instance, the, otherwise significant work, by John Milios and Dimitris P. Sotiropoulos (2009) *Rethinking Imperialism. A Study of Capitalist Rule* (New York: Palgrave-MacMillan). See also our review of this work in Vassilis K. Fouskas (2010) 'Imperialism – again?' *The Political Quarterly* v.81, n.4, pp.634 ff (the book is reviewed jointly with Alex Callinicos' *Imperialism and Global Political Economy*).

⁶ See, Leo Panitch and Martijn Konings (2008) *American Empire and the Political Economy of Global Finance* (New York: Palgrave); Greg Albo, Sam Gindin and Leo Panitch (2010), *In and Out of Crisis* (Oakland: PM press).

⁷ Rudolf Hilferding (1910/1981), *Finance Capital: A Study of the Latest Phase of Capitalist Development* (London: Routledge). Bukharin, far more than Lenin, adopts entirely Hilferding's concept to define imperialism as finance capitalism; see Nikolai Bukharin (1917/2003), *Imperialism and World Economy* (Sydney: Bookmarks publications), esp. p.144, where he defines imperialism as 'the policy of finance capitalism'. Lenin, however, wrongly saw this as the 'latest' stage of capitalist development, pointing out to global capitalism's irreversible decay.

⁸ Kautsky's classic 1914 text can be found in <http://www.marxists.org/archive/kautsky/1914/09/ultra-imp.htm> (accessed: 2 July 2012). Aspects of the important theoretical work on US imperialism produced in the journal, *Monthly Review*, have clear Kautskyan features. After the fall of the Soviet Union, many Marxists and Marxists saw a triumph of Kautsky over Lenin's and Trotsky's theory of uneven (and combined) development; see, for instance, Peter Wollen (1993) 'Our post-Communism: the legacy of Karl Kautski', *New Left Review*, 202, November-December. Paradoxically, Leo Panitch's important work has also the tendency to overestimate the abilities of US capital today to shape developments around the world in ways that serve the interests of the US imperial state. This, we believe, is due to the fact that Panitch has the tendency to underplay the different forms of neo-imperial strategies and structures that prevail between the Western core and the global South, as opposed to the arrangements that prevail in core-core relations. This transpires in Panitch's most recent co-authored work, *The Making of Modern Capitalism* and, importantly, in his conversation with Peter Gowan in a rare gathering at SOAS, University of London, on 9 July 2001; see Peter Gowan, Leo Panitch and Martin Shaw (Autumn 2001) 'The state, globalisation and the new imperialism', *Historical Materialism*, n.9, www.historicalmaterialism.net (accessed in December 2001).

⁹ Many writers, such as Lapavistas, speak of an 'increased autonomy of the financial sector'. See, Costas Lapavistas (2008), 'Financialised capitalism: Direct exploitation and periodic bubbles', (London: SOAS University of London), www.leftlibrary.com/lapavistas1.pdf and 'Finalised capitalism: Crisis and financial expropriation' (2009), *Historical Materialism*, 17, pp.114-148. Lapavistas' definition of financialisation was challenged by such authors as Ben Fine and Alex Callinicos; see Ben Fine (2010), 'Locating financialisation', *Historical Materialism*, 18, pp.97-116 and Alex Callinicos (2010), *Bonfire of Illusions* (Cambridge: Polity press), chapter 1 and pp.149-50.

¹⁰ 'Volcker shock' comes after the name of the Chairman of the US Federal Bank, Paul Volcker, who is widely credited with beating the *stagflation* of the 1970s with an interest rate spike up to 20% (the prime rate rose by 21,5% in less than two years). Volcker was appointed the Fed's Chairman by Carter in August 1979 and re-appointed by Reagan in 1983. Against the neo-liberal orthodoxy, Panitch and Gindin argue convincingly that Volcker's real aim was not inflation, but the labour movement; see Leo Panitch and Sam Gindin (2005) 'Finance and the American empire', *Socialist Register* (London: Merlin press). For a perceptive critical analysis of the entire 'Volcker period' by an investigative reporter, see William Greider (1987) *Secrets of the Temple. How the Federal Reserve Runs the Country* (New York: Simon & Schuster)

¹¹ Richard Duncan (2012) 'A new global depression?' *New Left Review* 77, September-October, pp.13-14. Duncan then goes on to outline the main characteristics of 'creditism', which are (a) an expanded role for the state; (b) the centrality of central bank, which creates money and

manipulates its value; (c) a reverse in the way growth happens: under capitalism businesspersons invest, make profit and accumulate, and then all over again. But, Duncan's argument goes, under 'creditism' the growth dynamic of the American economy and even of the world economy has for some time now been driven by 'credit creation and consumption'. Our point here is not that these arguments are completely false. Rather, we contend, first, that this is not the case in large part of the globe and, second, that this form of US supremacy is, in the long run, unsustainable.

¹² See, Robert Brenner (2003), *The Boom and the Bubble: The US in the World Economy* (London: Verso)

¹³ See also, Alex Callinicos (2010), *Bonfire of Illusions* (Cambridge: Polity press), pp.44 ff., who much appreciates Harvey's contribution to the debate over financialisation and crises.

¹⁴ One of us has examined the notion of Germany's 'variable geometry' strategy in the 1990s; see, Vassilis K. Fouskas (1997) 'The Italian Left and the enlargement of the European Union' *Contemporary Politics*, v.3, n.2, pp.119-137

¹⁵ But even then, Gideon Rachman argued, 'many were sceptical. One top EU official scoffed that 'France needs Germany to disguise how weak it is; Germany needs France to disguise how strong it is', Gideon Rachman, 'Welcome to Berlin, the new capital of Europe', *Financial Times*, 23 October 2012, p.13.

¹⁶ On the definition of imperialism as appropriation of international value, see the important contribution by Guglielmo Carchedi (2002), 'Imperialism, dollarisation and the Euro', in Leo Panitch and Colin Leys (eds) *Socialist Register*, pp.154-173. However, Carchedi fails to explore the complexities of contemporary imperial structures, which involve not just economics and politics, but also geo-politics, especially in the orbits of the Euro-Atlantic area and the greater Middle East after the collapse of the Soviet Union.

¹⁷ The concept of uneven (and combined) development was first formulated by Trotsky and further elaborated by George Novack, Ernest Mandel and Michel Löwy. The best contemporary exponent of this concept is Justin Rosenberg; see, for example, his exchange of letters with Alex Callinicos (2008) 'Uneven and combined development: the social relational substratum of "the international". A exchange of letters' *Cambridge Review of International Affairs* n.1, v.21, pp.77-112, March.

¹⁸ See, for example, his rather forgotten essay 'On the slogan of a United States of Europe' (1915) <http://www.marxists.org/archive/lenin/works/1915/aug/23.htm> If one brushes aside some sloganeering expressions, Lenin's argument makes perfect sense: 'Of course, *temporary* agreements are possible between capitalists and between states. In this sense a United States of Europe is possible as an agreement between the *European capitalists*...but to what end? Only for the purpose of jointly suppressing socialism in Europe, of jointly protecting colonial booty *against* Japan and America, who have been badly done out of their share by the present partition of colonies, and the increase of whose might during the last fifty years has been immeasurably more rapid than that of backward and monarchist Europe, now turning senile. Compared with the United States of America, Europe as a whole denotes economic stagnation. On the present economic basis, i.e., under capitalism, a United States of Europe would signify an organisation of reaction to retard America's more rapid development. The times when the cause of democracy and socialism was associated only with Europe alone have gone forever'. This is a significant statement and parallels can and must be drawn with today's global dynamics of a stagnation of the US and European economies and the relative economic power-shift to the 'global East' (China, India, Russia, Brazil etc.).

¹⁹ Classic statements in this field come from Joseph Nye, Robert Keohane, John Ikenberry and others; see, for instance, Robert Keohane (1984), *After Hegemony. Cooperation and Discord in the World Political Economy* (Princeton: P.U.P.). The bibliography on this subject is vast. On cosmopolitanism and the 'global democracy' thesis, see also the more recent collection of texts in Daniele Archibugi (ed. 2011) *Global Democracy. Normative and Empirical Perspectives* (Cambridge: C.U.P.)

²⁰ Apart from the classic works by Thucydides, E.H. Carr, Raymond Aron and Hans Morgenthau, we would distinguish here Kenneth Waltz (1959/2001) *Man, the State and War* (New York: Columbia University Press), which provides the best theorisation for the realist

school. In the field of IPE, we would discern the works by Robert Gilpin and Stephen Krasner. See, for instance, Robert Gilpin (1981) *War and Change in World Politics* (Cambridge: C.U.P.); Stephen Krasner (1983) *International Regimes* (Ithaca: Cornell University Press); for a critique from a Marxisant perspective, see Benno Teschke (2003) *The Myth of 1648. Class, Geo-politics and the Making of Modern International Relations* (London: Verso). The bibliography is immense.

²¹ This is one of the most perceptive criticisms Peter Gowan advanced against the 'offensive realism' of John Mearsheimer in reviewing his work, *The Tragedy of Great Power Politics*, see, Peter Gowan (2010) *A Calculus of Power* (London: Verso), esp. pp.111-132.

²² Constructivist theorising has recently used the notion of 'crisis displacement strategies', but without any reference or acknowledgement to Harvey's work; see, for instance, Colin Hay (1999) 'Crisis and the structural transformation of the state: interrogating the process of change', *British Journal of Politics and International Relations*, v.3, n.1, pp.317-344

²³ The classic source on Open Door imperialism remains the seminal work by William Appleman Williams (1959/1972), *The Tragedy of American Diplomacy* (New York: Norton).

²⁴ On this issue, see the interesting comments by Christopher Layne (2006), *The Peace of Illusions; American Grand Strategy from 1940 to the Present* (Ithaca: Cornell University Press), chapters 1-5.

²⁵ See, Immanuel Wallerstein (2011) 'Dynamics of (unresolved) crisis', in Craig Calhoun and Georgi Derluguian (eds) *Business as Usual. The Roots of the Global Financial Meltdown* (New York and London: Social research Council and New York University Press), pp.69-88.

²⁶ Nikolai Kondratieff, a Russian economist writing in the 1920s, observed certain cyclical regularities in advanced capitalist economies (USA and UK). He looked at prices over long periods and since the 1790s, which led him to conclude that the existence of long waves was quite probable. He saw the capitalist world economy as evolving and self-correcting and, by implication he denied the notion of an approaching collapse of capitalism, which at the time prevailed among Marxist economists. In the 1930s, Schumpeter endorsed this concept. In the 1970s, in one way or another, the 'K-waves' concept began to be used by 'world system' theorists, such as Immanuel Wallerstein. But one of the most erudite and rather unknown attempts at theorizing Kondratieff waves through, as he called it, a *theory of conjuncture* is the work of the young Soviet economist Pavel Maksakovsky, *The Capitalist Cycle: An Essay on the Marxist Theory of the Cycle*, which he wrote in 1927-8. His premature death in 1928 at the age of 28 prevented him from seeing his work published by the Communist Academy and the Institute of Red Professors in 1929. His essay was published in English in a book-form in 2009 by Haymarket books, and with a very good introduction by Richard B. Day.

²⁷ We are referring to: Giovanni Arrighi (1994/2009) *The Long Twentieth Century. Money, Power and the Origins of our Times* (London: Verso); Giovanni Arrighi and Beverly Silver (eds. 1999) *Chaos and Governance in the Modern World System* (Minnesota: University of Minnesota Press); Giovanni Arrighi (2007) *Adam Smith in Beijing. Lineages of the 21st Century* (London: Verso)

²⁸ See Arrighi's 'Postscript to the Second Edition of *The Long Twentieth Century*' (March 2009), published by Verso in 2010, and his joint text with Beverly Silver, 'The end of the Long Twentieth Century', in Craig Calhoun and Georgi Derluguian (eds), *Business as Usual*, op.cit., pp.53-68.

²⁹ We do not wish to re-launch here the old, but always relevant, discussion about the definition of capitalism in history. For the unaware, we would like to remind an old debate between Wallerstein and Frank, on the one hand, and Ernesto Laclau on the other, which dwells precisely on this issue – see, Anthony Brewer (1980), *Marxist Theories of Imperialism* (London: Routledge) chapters 8, 9 and 10.

³⁰ *The Fall of the US Empire*, op.cit. Further criticism to Arrighi's work by Benno Teschke (2003) *The Myth of 1648. Class, Geopolitics and the Making of Modern International Relations* (London: Verso).

³¹ We contend that 'global fault-lines' is *not* a post-structuralist concept. We embrace the concept of Hegelian totality but in a structuralist manner in which the instances of that totality

are discursively articulated in time and space with the economic instance being prominent only in the 'first' but not in the 'last' analysis. To put differently, and in disagreement with post-structuralist and post-modern theorists, we accept binary oppositions and argue that structures are not self-sufficient precisely because they are determined by *social* struggle.

³² We say 'partly' because the price of paper claims over value do not always reflect the amount initially borrowed, inasmuch as they circulate according to their own 'logic'. We are thankful to Joseph Choonara for his comment on this issue.

³³ It would be wrong to suggest that Harvey was the first who extrapolated a pattern of recurrence from Marx's analyses on primitive accumulation. Marxists and value theorists, such as Werner Bonefeld and Massimo de Angelis, had drawn similar inferences well before Harvey; see, for instance, Werner Bonefeld (1988) 'Class struggle and the permanence of primitive accumulation' *Common Sense*, 8; Massimo de Angelis (2001) 'Marx and primitive accumulation; the continuous character of capital's enclosures', *The Commoner*, 2.

³⁴ Christine Lagarde (25 May 2012), interview with *The Guardian* <http://www.guardian.co.uk/world/2012/may/25/payback-time-lagarde-greeks> (accessed on 2 July 2012)

³⁵ This is a point Harvey makes repeatedly in his *The Enigma of Capital*, op.cit., and in his more recent work on *Rebel Cities*.

³⁶ The best critical appraisal of 'shock therapy' and Sachs' theory comes from Peter Gowan (1995) 'Neo-liberal theory and practice for Eastern Europe', *New Left Review*, 213, September-October, pp.3-60. This work builds on Gowan's earlier contributions to problems facing Eastern European societies that appeared in *Labour Focus on Eastern Europe*.

³⁷ We say 'in theory', because in reality resources depletion and the cost of access to natural resources influence the rate of profit, thus increasing the vulnerability of the capitalist system as a whole.

³⁸ Further discussion on these points in Vassilis K. Fouskas (2003) *Zones of Conflict* (London: Pluto press) chapter 2. See also, *The New American Imperialism* (2005), chapter 1, and *The Fall of the US Empire* (2012), pp.23 ff. The second work, in particular, brings into discussion the defence/security dimension, by way of critically discussing Jonathan Nitzan's and Shimshon Bichler's notion of 'petro-dollar/weapon dollar coalition' that can be found in their *The Global Political Economy of Israel*.

³⁹ The crisis in Dubai is directly linked to oil and other geopolitical factors; see, for instance, Mina Toksoz (2010) 'The Gulf Cooperation Council and the global recession', *Journal of Balkan and Near Eastern Studies* v.12, n.2, June, pp.195-206, and David Jones (2010) *Manpower Challenges in the Middle East* (Singapore: Hewitt) http://www.iesingapore.gov.sg/wps/wcm/connect/fb7fff00442f7ed78f208f1091531275/iadvisory10ct10_5_v2_Manpower_and_Recruitment_Challenges_in_the_Middle_East_-_Mr_David_Jones.pdf?MOD=AJPERES (accessed: 27 July 2012)

⁴⁰ Gowan (1999) conducts a masterful geo-political and geo-strategic analysis in his *The Global Gamble*, chapter 12, 'The enlargement of NATO and the EU', pp.292-320

⁴¹ One of the few comprehensive accounts that consider the Greek/Eurozone crisis within Marx's own value theory is that by John Tolios (2011), op.cit. Unfortunately, this extremely useful work is available only in Greek.

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