Dependency Theory's Reanimation in the Era of Financial Capital[1]

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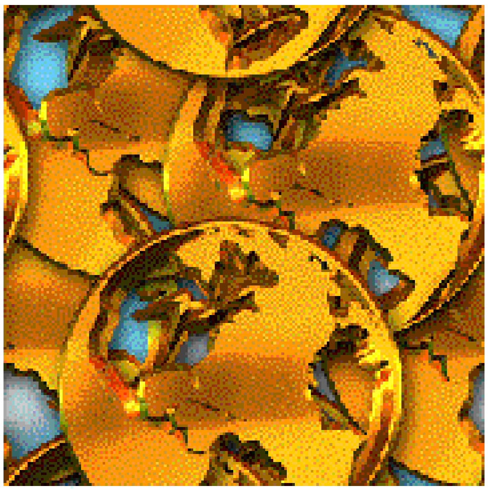

There is now virtual unanimity about the causes and character of the demise of capitalism's so-called 'Golden Age', i.e. the prolonged expansion associated with high employment, growing wages and welfare expenditures, high consumption, and benign business cycles that lasted in the advanced industrial countries from 1945 to 1973, and which effectively ended when the quadrupling of oil prices in that year threw most of the world's economies into recession.[2] Of course the precise nature of the complex amalgam of economic, political, social, and cultural transformations involved in this epochal shift from the 'Golden Age' to its successor 'Leaden Age' (to use a term of Robert Pollin's) is a matter of considerable debate among students of political economy, and these include many who reflect on the character and import of marxian or marxisante accounts of capitalist development. These reflections on the transition from the 'Golden' to the 'Leaden Age' are carried out under the now well-known titles 'late capitalism', 'advanced capitalism', 'disorganized capitalism', 'deregulatory capitalism', 'actually existing world capitalism', 'integrated world capitalism', 'postFordism', 'postindustrialization', 'overconsumptionist economic regimes', and so forth. The deliverances of such reflection have profound implications for any understanding of the forces and structures associated with uneven development, late industrialization and 'peripheralization'-- all these being notions vital to the explanations and theories of systemic international inequality sponsored by the various marxist traditions. (I am well-aware of the arguments of those who maintain that it is not clear that the global economy has in fact undergone the transformations it is alleged to have by those who invoke such titles and their accompanying notions, and that, to the contrary, there has *not* in fact been any kind of move towards a more 'open' international economy. Unfortunately, nearly all these arguments focus on the movements of productive and *nonportfolio* investment capital and hence do not account for burgeoning of extraterritorial markets in portfolio capital that has taken place in the last decade in particular, an expansion which is the specific focus of my argument.[3])

On Retaining the Dependency Paradigm

In this paper I examine the claim, advanced in many quarters and in several versions, that the most recent forms of capitalist development have effectively discredited theories of uneven or dependent development, and this because these theories hinge crucially on conceptions that are no longer plausible theoretically and which have been sidelined by recent historical events. Thus, the ending of the 'Golden Age' ensued in a radical restructuring of world capitalism that saw the emergence of new regimes of international competition. These new regimes have caused many so-called Third World countries to lurch into protracted recession and the associated problems of chronic debt and current account imbalances. At the same time these low-income countries have had to face the foreclosure of any real alternative to complete assimilation into the capitalist system of production, especially since the only apparent alternative to capitalism-- the 'actually existing socialism' of the former eastern bloc-- has fallen into desuetude since 1989 (if not before). However, while the majority of peripheral and semiperipheral countries have not benefitted from the regime of accumulation that has superseded that of the 'Golden Age', the countries of East Asia have until recently been able to advance economically, thereby controverting a major tenet of the *dependencia* school. With the significant advance of the East Asian countries, it was no longer possible to maintain a hard-and-fast distinction between 'core', 'semiperipheral' and 'peripheral' nations (if indeed this was ever really possible), and to insist that dependency is an ineluctable condition for nations not initially situated inside the capitalist 'core', that the very constitution of the 'core' required other national economies to exist in a state of economic subordination.

At a more purely theoretical level, critiques have also been made of the various 'essentialisms' and false 'universalisms' that are said to bedevil the development or dependency paradigms. Examples of these include the presumption that industrialization and the possession of industrial capital are the crucial requisites of economic progress (so that an economy is deemed to be developed, developing, or undeveloped depending on whether or not it has traversed an appropriate path to industrialization, and thus to have amassed a commensurate kind and scale of industrial capital); the inability to think beyond the state as the primary and essential vehicle of economic development; the (often unacknowledged) importation of problematic assumptions regarding the role of foreign investment and foreign trade in the so-called less developed economies; a eurocentric bias; an overlooking or deemphasizing of production undertaken by women; and an underestimation of the implications of widespread and haphazard industrial development for the environment.[4] In the face of these and other challenges to their paradigm, the proponents of theories of uneven development or dependency have, according to their critics, done little more than reiterate (i) their conviction that some form of socialism can still function as a potential countervailing force to capitalist depredation, and (ii) their belief in the efficacy of some kind of strategic decoupling of the less-developed economies from the capitalist world-system, again with the hope that this can function as a protection against capitalist encroachment. But, say these critics, neither (i) nor (ii) appear to be viable in the current capitalist dispensation. This dispensation is more staunchly and comprehensively inhospitable to socialist aspirations than it has ever been (thereby blocking-off any socialist path to socialism). Moreover, the completely integrated character of actually existing world capitalism ostensibly makes any attempt at decoupling a sure-fire recipe for economic collapse or extinction.

In examining this claim, or set of claims, I want to suggest that there is a good case to be made for the retention of notions of uneven development and dependency, albeit ones framed in very different terms. After all, persistent international economic inequalities remain, and if anything are becoming even more intractable; and the problems of chronic debt and pervasive international market instability are still around, as is apparent in the current East Asian crisis and in the plight of nearly every sub-Saharan nation since the 1970s. And, furthermore, at a theoretical level, the last decade or so has seen several compelling attempts on the part of dependency theorists to rid their formulations of the above-mentioned 'essentialisms' and false universalisms, and especially to think of the developmental state in other than purely mechanistic or monolithic terms.5 I shall not however engage specifically with any of these attempts at reformulation, convincing though I find many of them to be. Rather, my goal is to arrive at a version of dependency theory through the construction of an account of the impact, both economic and political, of transnational financial capital on the so-called less developed economies-- the impact of global financial markets being a phenomenon not usually taken into consideration by proponents of the theory of uneven development, and this primarily because underdevelopment has tended to be viewed primarily in terms of a country's flawed or incomplete negotiation of the processes of industrialization, and also because the large-scale effects of a whole range of new global financial markets on less developed economies have been felt only fairly recently (and primarily within the last decade at that), thus making it difficult for them to be registered by all but the most current analyses of underdevelopment and dependency.

With this objective in mind, I take the dependency or uneven development paradigm essentially to involve assent to some version of each of the following related propositions:

> Disparities in wealth between nations as a group are due fundamentally to asymmetries of economic and political power that are constitutive of the capitalist system of development, and indeed of world capitalism generally.
>
> The asymmetries of economic and political power that exist between groups of nations cannot be removed or significantly ameliorated within the structures and strategic possibilities that are integral to the prevailing system of capitalist accumulation.6

The Continuing Polarization

The polarization between the North and South is more pronounced than it has ever been. The United Nations *Human Development Report* for 1997 shows that the share of world trade for the 48 least developed nations, representing 10% of the world's population, has halved in the past two decades to just 0.3%, with over 50% of all developing countries not receiving any foreign direct investment (two-thirds of which went to just 8 developing countries).7 In fact, around 100 developing and transition countries experience slow economic growth, stagnation, or outright decline, and the incomes of more than a billion people now no longer reach levels attained 10 or even 30 years ago. The same Report indicates that 1.3 billion people a day live on a dollar a day or less, that there are 160 million malnourished children, that one-fifth of the world's population is not expected to live beyond 40 (in some countries life expectancy has fallen by 5 years or more), and that 100 million people in the North live below the poverty line (the North also has 37 million jobless people). Well over a billion human beings lack access to safe water, nearly a billion are illiterate, and around 840 million experience hunger or food insecurity. The same report also shows that the net wealth of 10 billionaires is worth 1.5 times the combined national incomes of the 48 least developed nations.8 The accomplishments of some nations in the face of such adversity are commendable and even heroic: during 1980-95 Burkina Faso, Gambia, Senegal, and Zimbabwe reduced child mortality by a third to a half in the face of declining incomes for much of this period, and Algeria, Jordan, Peru, Syria, and Trinidad and Tobago by a half to two-thirds (the latter nations despite reductions in per capita income of 20% or more over the last decade). But the disparities between North and South are increasing dramatically, and this in the era of globalization: the share in global income of the poorest 20% of the world's people has fallen from 2.3% in 1960 and 1.4% in 1991 to a current level of 1.1%, while the ratio of the income of the top 20% to that of the poorest 20% rose from 30:1 in 1960 to 61:1 in 1991, and grew still further to a figure of 78:1 in 1994.9 These figures point to a serious dilemma for the nations of the South. It is estimated that these nations need to expand economically at a rate of around 6-7% annually for several years if they are to provide employment opportunities for their expanding labour forces (growing at about 3.5% a year in countries such as Brazil and Mexico), and if they are to hope to meet their citizens' basic needs for food, shelter, clothing, health and education over a twenty-year period.10

These trends show no sign of slowing down, even though the United Nations estimates in *The Human Development Report* that it will only take 1% of global income and around 2-3% of national income in all but the most impoverished countries to fund a programme to eliminate world poverty.11 Where the subject of comparative international political economy is concerned, these stark and appalling facts call for an account of the systemic international inequalities that are their basis, and since the aim of the uneven development or dependency paradigm has always been to furnish precisely such a theory, it has not lacked a *prima facie* rationale even when some of its formulations have been questioned and found in whatever ways to be lacking. The time is certainly right for a revisiting of this paradigm: global capitalism as currently configured confronts less wealthy nations with severe, systemic, and pressing problems, problems that only this paradigm has depicted and analyzed in a serious and comprehensive way.

The Transnationalization of Financial Capital: (1) the Situation of the Less-Wealthy Nations (and East Asia in Particular)

It is difficult to do full justice here to the many facets of the epochal transformations that have taken place in extraterritorial financial markets and institutions since the early 1980s.12 But in noting some of the more distinctive features of these shifts, it can be seen that in addition to a tripling in the overall volume of transnational capital flows between 1980 and 1992, there has been an equally marked change in the composition of the flows themselves, especially to developing countries. Direct investment to developing countries nearly doubled in the period from the early 1980s to the early 1990s, and in 1995 the East Asian countries received an estimated $53.7 billion in foreign direct investment (FDI), up 24.7% on 1994.13 However, portfolio capital investment to these countries developed even more spectacularly, with a tenfold increase between 1990 and 1993, with East Asia being the largest recipient. It should be noted, though, that flows of portfolio investment declined from $84 billion in 1993 to $56 billion in 1995, with a particularly sharp fall taking place in equity flows-- these dropped from $46 billion in 1993 to $22 billion in 1995. This was due mainly to the rise in US interest rates in early 1994, the Mexican crisis a year later, the US stock market surge in 1995 (a surge that has maintained itself pretty consistently until the present time, viz. 1998), and concerns that the East Asian economies were overheating in late 1995.14 It is too soon to say what impact the East Asian crisis will have on international portfolio investment in the region (the Thai banking-system collapse that precipitated the crisis occurred as recently as July 1997), but in the absence of the actual figures it seems pretty safe to assume that the decline in portfolio investment that began prior to the collapse of the East Asian economies has if anything been exacerbated by the crisis. It is important for us to get a sense of the kinds of portfolio investment flow that have been moving in and out of East Asia in these alternating phases of financial expansion and contraction, even if only to form a notion of the character and magnitude of the current crisis, and what this may portend for a new and modified version of the uneven development or dependency paradigm.

Capital from bonds or fixed income securities amounted to $800 billion in developing countries in 1995, about two-thirds of their equity capitalization.15 Where the East Asian countries are concerned, the large direct flow of capital provided by FDI noted above has been exceed in terms of growth rate by equity investment, which rose from $2.6 billion in 1989 to approximately $12.2 billion in 1995. This represented about 55% of all portfolio equity flows to developing countries in 1995 (Latin America came next with 28%). In 1994 foreigners made net purchases in East Asian stock markets that amounted to $2.5 billion in South Korea, $1.3 billion in Malaysia, and $2.1 billion in Indonesia.16

This very substantial total private investment in the East Asian countries has been made possible by important structural changes in the financial markets themselves, and by the creation of several new instruments of international finance in the last two decades or so-- largely because of liberalization and also because of the emergence of completely new international markets for securities, futures, options, swaps, international mutual funds, international bonds (these markets were opened to developing countries in the 1990s), and American and global depository receipts which gave American companies access to the stock markets of industrialized and industrializing countries.[17] Part of this development was a new interest shown by investors in Asian stock markets that led quickly to a boom in the East Asian bourses: in 1993 alone the share indexes in Hong Kong grew by 116%, in Jakarta by 115%, and in Manila (the best Asian performer) by 154%.[18] The scale of this very rapid growth can be indicated by a comparison, made by Ajit Singh, between the relative times it took the United States and the emerging countries to reach roughly the same capitalization ratios:

> The speed of development of Third World stock markets in the recent period may be judged from the fact that it took eighty-five years (1810-1895) for the US capitalization ratio (market capitalization as a proportion of GDP) to rise from 7 percent to 71 percent. In contrast, the corresponding Taiwanese ratio jumped from 11 percent to 74 percent in just 10 years between 1981 and 1991. Similarly, between 1983 and 1993 the Chilean ratio rose from 13.2 percent to 78 percent; the Korean from 5.4 percent to 36.2 percent and the Thai from 3.8 percent to 55.8.[19]

At the same time the growing reliance of developing countries on portfolio investment has also been instrumental in creating the structural conditions responsible for the current collapse of the East Asian financial markets. To begin with, there is the sheer disparity of scale between the combined resources of the funds run by financial institutions in the most advanced industrial countries and the market capital of middle-income countries very new to this form of capitalism. The combined pool of funds managed by financial institutions in the high-income countries runs to around $10-15 trillion, whereas the total market capitalization of all lower-income countries (referred to by World Bank officials as 'emerging market' countries) is in the order of $1 trillion.[20] The effects of an imbalance of this kind during a rapid movement episode are potentially catastrophic for a lower-income country, whose stock exchange is likely to be dominated by foreign-owned portfolios (as has already been noted Manila's (for example) is 44% foreign-owned). Furthermore, portfolio investors can pull out of markets very quickly, and are prone to do so if short-term performance targets are not met or if other economic indicators are thought to portend weakness (such as the high levels of non-performing loans in East Asian banking systems that are said to have been instrumental in bringing about the current crisis). This is especially true of the US mutual funds, which are inclined to jettison their holdings if quarterly performance standards are not reached or if there is the expectation of a falling market.[21] A third feature of the new kinds of market capital that promotes instabilities of the kind now being seen in Southeast Asia has to do with the disposition of short-term investment capital not to reflect underlying economic 'fundamentals' such as output or employment.[22] A rise in US or European interest rates, say, with no change whatsoever in the macroeconomic conditions of the lower-income countries involved, can none the less induce a change of perception on the part of foreign portfolio investors with holdings in the lower-income countries. The result can be a swift reversal of investment flows as funds are channelled elsewhere in a stock market stampede, with possibly devastating consequences for prices in the equity markets of the poorer country thus affected. The behavior of this new form of short-term portfolio capital is quite different from that of financial and industrial capital as characterized by

Marx, since the virtual autonomy it enjoys in relation to actual economic activity (this being the primary source of its volatility) makes it correspond more to what he calls 'fictitious capital' in Volume 3 of *Capital*, where it is used to designate a form of capital that creates money in ways completely detached from the productive process and the exploitation of labour.23 Interestingly enough, the only advice the World Bank and its representatives, Mohsin Khan in this case, can give to lower-income countries faced with a potentially damaging reversal of portfolio investment flow is the now familiar refrain: 'strive for consistency in the implementation of strong macro-economic and structural policies, and ensure that borrowed resources are appropriately invested'.24

A country facing significant withdrawals of foreign portfolio capital will face the 'usual' problems resulting from pressure on its exchange rates and its balance of payments (with a resulting drain on foreign-exchange reserves), and from the almost inevitable price falls in domestic financial markets. This in turn can result in a weakening of the lower-income countries financial system, which is more likely if banks and financial houses are closely integrated with the securities sector, and have borrowers with a high level of investment in the domestic market: these borrowers will default on their repayments and leave the banks and financial houses facing shortfalls in meeting their obligations, which they may then try to discharge by borrowing abroad.25 In the longer term, however, the lower-income country relying on relatively large inflows of short-term capital provided by foreign portfolio investment (as opposed to foreign direct investment which is harder to withdraw quickly), and thus facing the possibility of overnight capital flight when financial markets become volatile, confronts a serious problem of macroeconomic management encompassing but also extending beyond the phenomena-- runs on its currency, interest-rate hikes, a balance of payments and foreign-reserves squeeze, and so forth-- more immediately visible when capital-market volatility starts to become more generally disruptive. For this instability makes it difficult for lower-income countries to pursue independent fiscal and monetary policies and to have a coherent strategy for managing exchange rates. This is especially so when the lower-income countries involved have only very short periods of time in which to find workable realignments in vast and unstable markets (in 1995 the portfolio investment market's world-wide transactions amounted to $1.3 trillion daily or $312 trillion in a year of 240 business days.26 Moreover, as was evident during the exchange-rate instabilities after the ERM débâcle in 1992, transnational capital markets are now large enough, and institutional speculators possess sufficient resources that are swiftly interconvertible (banking, securities and insurance businesses now blend into each other, as typified by the proposed $83 billion merger between the second largest US commercial bank, Citicorp, and the financial conglomerate Travelers Group (which is the US's third largest brokerage firm), as well as the comprehensive transformation in the UK of what a decade ago used to be 'building societies'), to neutralize the coordinated efforts of even the American and Western European central bank during a financial crisis. Lower-income central banks, such as those in Southeast Asia today, with resources that are a fraction of their G-7 counterparts, have virtually no chance of succeeding where much bigger central banks have failed (and will continue to do so in the absence of more permanent institutional arrangements to control such instabilities).

Lower-income countries face a constant and seemingly irremovable dilemma in this immense and fluid financial environment. To raise standards in education, health-service provision, and social welfare they may have to pursue an independent fiscal and monetary policy, but this will almost certainly result in exchange-rate instability, and setting independent exchange-rate levels will likewise cause the country in question to have less control over its domestic macroeconomic and monetary arrangements. The three situations-- capital mobility, fiscal and monetary policy autonomy and stable exchange-rates-- seem therefore to be mutually incompatible, leaving countries, and especially lower-income countries, with little or no room for manoeuvre. In addition, and the recent Asian economic crisis bears this out, portfolio funds, both foreign and local, tend not to go into those sectors, manufacturing and agriculture primarily, that take longer to produce significant yields, but instead find their way into domains where options favoring 'quick' money are more readily available, namely, the stock market and real estate.27 The ideal situation for such threatened lower-income countries would be for there to be a multilateral strategy that is coordinated accordingly but which still allows a country to use a range of capital controls that give it a degree of macroeconomic and monetary-policy autonomy in the face of market integration.28 But the coordination of multilateral efforts to stem capital market instability is difficult to sustain over the longer haul, when the crisis that prompted the initial search for multilateral coordination has dissipated, and national self-interest asserts itself again in the absence of institutional forces and principles strong enough (politically and not just economically) to counter such fissiparous tendencies. And so the structural dilemma remains: market integration places a high premium on the coordination of policies between nations, but this coordination is harder to maintain in the longer term because there seems to be no way of obviating tendencies to fall back on national self-interest when it becomes more difficult to support coordinated macroeconomic and fiscal measures for more than a just a relatively short span of time. Here of course the wealthier countries have a huge advantage because they have a better chance of using their economic and political resources to manage such crises in ways not available to their poorer counterparts: they can use these resources to allow their fiscal and monetary policies to operate independently in the short-term, and the policies they implement in this connexion are not necessarily to the benefit of the less-wealthy nations (who in any case enjoy no such freedom to decouple fiscal from monetary policy).29 For example, the 'structural adjustment' package that South Korea had to accept as a condition of getting its recent IMF bail-out will cause a significant rise in unemployment because the government will have to lower or eliminate its subsidies to state-owned enterprises and set high real interest rates to reduce Korea's current account deficit and keep the won stable, but this does not seem to figure among the IMF's primary concerns, which, as in everything else that comes under its purview, are to safeguard 'confidence' in the international banking and trading systems and to preserve and promote access to markets world-wide as an end in itself. Or, to mention another recent case, the Mexican economic collapse in December 1994 was precipitated in part by high US interest rates imposed by the Federal Reserve to prevent the US economy from 'overheating' and to help reduce the size of the US's chronic current account imbalances-- with high US interest rates however Mexico's debt situation became unmanageable and the *peso* went into a free-fall.30

The Transnationalization of Financial Capital: (2) Some Theoretical Considerations

The absence of a viable system for ensuring adequate macroeconomic management in the face of financial market volatility is a problem that is particularly pressing for lower-income countries. It is, however, the outcome of a more profound failure that results from the convergence or intersection of two other crises: the crisis that accompanied the ending of the 'Golden Age', when the social and economic costs (inflation in particular) of Keynesian and New Deal/Great Society policies intended to ensure that consumption was somehow always in line with production were found to be 'unacceptable' by the Reagan and Thatcher administrations; and the succeeding crisis, when the neoliberal switch of emphasis from fiscal to monetary policy (augmented by an array of supply-side instruments) turned out to be too deflationary, so that monetarism was abandoned in the early 1980s by its leading exponent, the British Conservative government. Since then there has been no adequate system of national macroeconomic management capable of producing sustained noninflationary growth, whether in the USA or elsewhere, and the powerlessness of the less-wealthy nations in the face of world financial market instabilities must necessarily be seen in this broader and more encompassing context.[31] The currently prevailing neoliberal ideology-- promulgated in the US but also espoused by multilateral institutions such as the World Bank and IMF, and which accords priority to keeping inflation low, to avoiding price 'distortions', to monetary discipline (though not quite full-blown monetarism after the 1980s), and to deregulation and liberalization-- has no solutions for capital market volatility beyond the pious injunction that the affected countries should try always to have 'sound macroeconomic fundamentals' and embrace open markets.[32] The components of this ideology were seen by the World Bank and others as the enabling basis of East Asia's 'miraculous' economic success, and the collapse of the economies of Thailand, Indonesia, Malaysia, and South Korea (as well as Japan's lingering recession) has exposed in the most abrupt and dramatic fashion this ideology's economic and political limitations.[33] It is in this context that a new and modified version of dependency theory has its place, along with the notion that we may be on the threshold of the emergence of a new and somewhat different regime of accumulation (though as yet it is of course too early to make any predictions).

Whatever happens the claim, made by Giovanni Arrighi and others, that Japan and the other East Asian economies constitute a formation that has begun to supersede an American economic hegemony that has lasted for most of this century, is one that can no longer be upheld in this bald and unqualified fashion, if at all. For the immense proliferation of pension, insurance, and mutual funds in the last decade or so has changed radically the circuits of realization and accumulation that are at the disposal of the capitalist system, and the crisis of the East Asian economies is arguably an outcome of this new state of affairs.[34] The impact of these new circuits of realization and accumulation on the economies of the less-wealthy nations has to be taken into consideration, especially since these nations are, as we have seen, confronted unrelentingly by an ideology (the 'Washington Consensus' identified by John Williamson) which insists that all economic advancement, including progress beyond the most abject poverty and immiseration, has necessarily to be market-driven. And, moreover, the question which lies at the heart of theories of dependency and uneven development-- viz. the possibility of implementing a postcapitalist system of production and accumulation-- can be answered only by an analysis of these new and very recent capitalist circuits of realization and accumulation.

Portfolio Capital in Practice

As stated earlier, the sheer disproportion in the relative sizes of the stock market capitalizations of the advanced industrial and the so-called emerging countries affords the former group of nations more flexibility in dealing with international capital market mobility. However, the scope for economy policy-making in the less wealthy nations is constrained in another way, namely, by the particular concentrations of accumulated assets in pension and mutual funds in the advanced industrial countries, and especially by the business practices of the managers of these funds, who are concerned solely with short-term dividends and not at all with the economic and social well-being of the economies in which their funds are invested. And these assets are huge. In 1994 two American pension funds alone-- the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and the California Public Employees Retirement System (CALPERS)-- had assets of $140 billion and $100 billion respectively, and the largest pension fund in the UK, the Post Office and British Telcom Fund, had holdings of $35 billion. The total figure for world-wide pension fund assets in 1994 was $10 trillion.35 In the same year, 1994, the stock market capitalization of all emerging countries totalled a mere $1.9 trillion, and the GDPs for all of the world's 51 low-income nations totalled $1.2 trillion (only $392.6 billion if one excluded China and India).36 The disproportion between these pension funds and the less-wealthy nations, therefore, is palpable if not staggering: pension funds in a handful of countries, with no account taken here of mutual and insurance funds (insurance fund assets amounted to $2.6 trillion by the end of 1994), dwarf the total 'wealth' of these less prosperous countries.

Moreover, the forms of capital associated with pension, mutual, and insurance funds have done away with many of the traditional disciplines exercised by ownership at the point of production: many of the financial instruments created as part of the burgeoning of such funds are less amenable to established disciplines and forms of regulation, and this because the instruments in question are not positioned within relatively stable and organized markets in the ways typical of more conventional forms of financial capital. These instruments are managed by relatively few and largely anonymous fund managers, based overwhelmingly in the US, the UK and a few other countries, and their complexity is often such that they tend to be understood by only a few specialists. The inevitable outcome is (i) that the creators of these novel, often hybrid instruments stand most to benefit from their deployment simply because they are in a position to be maximally cognizant of their intricate workings; (ii) that since many of these instruments are consciously designed to pass financial risks, transaction costs, etc., from the lender to the borrower, Third World financial institutions who borrow through them inevitably take higher risks than their lender banks in the First World; and (iii) that, as with any financial-market innovation, the first users of the mechanism or channel in question tend invariably to profit disproportionally from it-- as these come to be more widely used the rates of their attendant gains are inclined generally to fall. The power of those who control such funds and the instruments and channels through which they are deployed is therefore immense, and these highly mobile and relatively unconventional forms of capital are very much the engine of the newest regime of capitalist accumulation.

But this expansion in its present forms of transnational portfolio capital does not augur well for the development of the less-wealthy countries. There is ample empirical evidence of direct correlations between portfolio capital equity inflow and exchange rate instabilities; as there is of the destabilizing 'income-effects' generated by stock-exchange volatility, of the failure of portfolio inflows in developing economies to be matched by increases in aggregate saving and investment in those countries, and of the propensity of stock markets to favor the survival of large though relatively unprofitable firms at the expense of their smaller but more efficient counterparts. Other difficulties exist: the proneness of financial markets to failure (information deficits, unenforceable contracts, and so on); the inability of the developing country relying on foreign portfolio capital to use this short-term and speculative capital as part of a long-term macroeconomic strategy; and the susceptibility of such capital to exogenous pressures (shifting US interest rates, the paramountcy of the needs of advanced country investors, and so forth).37

But the most important consideration here is that the transnational financial markets have done nothing so far (and neither do they give any indication of doing so in future) to deal with what is perhaps the single most important causal factor in the economic declines experienced by many Latin American and sub-Saharan African countries in the 1980s, declines that in many cases are continuing into the 1990s (of the 44 low-income countries in the 1996 *World Development Report* for whom such information is available, 23 experienced a fall in the average annual growth of GNP per capita during 1985-94, as did 22 of the 50 middle-income countries).38 This is the inability of the governments of the countries in question to maintain levels of real investment: according to the 1991 *World Development Report*, gross domestic investment grew negatively in the Latin American and sub-Saharan countries as a group in the 1980s, and both groups experienced the largest declines in growth rate at the same time.39 Why did real investment fall so significantly in these less-wealthy countries? And will the exponential growth in transnational financial markets do anything to alleviate the chronically low levels of investment (and output) in these nations? The answer to the latter question, in the light of the evidence available so far, is 'no'. In fact, the need of emerging countries to keep real interest rates high in the hope of attracting investor funds from abroad by ensuring higher returns for foreign capital, and to fall in line with the deflationary intent that is standard to all IMF/World Bank 'structural adjustment programmes', will, all else being equal, lead to lower real wages. Given continuing high levels of unemployment, this policy will inevitably have negative effects on that country's income distribution. Given also the high existing levels of poverty, a growing population, depressed wages (for the reason just indicated), uneven economic performance, and other possible factors such as a decline in the quality of land stock (and the almost certain depletion of environmental assets), there is certainly no way that the poorer nations will be able to generate enough savings and investment endogenously to drive any kind of real growth, and this even if they try to heed the World Bank's injunction to seek their 'comparative advantage' (though many non-industrialized nations have no evident 'comparative advantage' to benefit from) and to maintain open trade and investment arrangements (as the optimal way in its eyes to ensure such growth). Moreover, significant amounts of foreign portfolio capital is not likely to flow in the direction of such countries, even if they sought to implement open trade and market arrangements. The plight of such countries is dire, and given the almost complete absence of institutions and mechanisms designed at both the national and international level to promote long-term investment and financial stability, continued stagnation is virtually inevitable for most of these countries: many of them have already been consigned, in Samir Amin's words, to a 'Fourth World' that has no significant prospect of advancing even to the threshold of industrialization and of benefitting in any way from current and future expansions of international trade.40 The fundamental insight of dependency theory-- that all claims to the contrary notwithstanding capitalism is not inherently 'progressive'-- appears to be more probative than the cozening neoliberalism of those who insist that 'open' markets and the pursuit of 'comparative advantage' are somehow going to be the salvation of the world's low-income countries.

Dependency Theory Revisited via a Detour Through Arrighi's Analysis of the Current World-System

Dependency theory has of course aimed to provide an explanation for the systematic underdevelopment of the non-industrialized or semi-industrialized nations (thereby filling a lacuna in marxist theories of imperialism, which have tended to focus more on the contradictory nature of capitalist production and its property relations and less on the politically instituted relations of exchange between nations).41 Dependency theory has done more than this, however, because it has as one of its corollaries the proposition that as long as actually existing capitalism prevails, the low-income countries as a group are in principle not going to be the beneficiaries of any structural changes in the international system. But if it is the case that the less-wealthy countries are not going to benefit from any structural disposition of the international system as long as actually existing capitalism continues to exist, then it behooves the proponent of dependency theory to provide an account, however stylized, of the current disposition of this system. To my mind, the most historically detailed and analytically rigorous analysis of the current regime of accumulation, its relationship to its predecessor regimes, and the conditions being set down now for its possible successor, is the one furnished by Giovanni Arrighi in his *The Long Twentieth Century*: it seems to me that any advocate of whatever version of dependency theory has at some point to engage with the argument of this exemplary text.

One of Arrighi's aims is to account for the decline in profitability and economic growth associated with the ending of the 'Golden Age' of the western economies from the 1970s onwards. His primary analytical notion is that of a 'systemic cycle of accumulation'. Adapting Marx's formula for the basic circuit of capital, *money->commodities->more money* (*M->C->M1*), Arrighi argues that each systemic cycle consists of two phases. One is a period of 'material expansion', in which profits are derived largely from the production and traffic in commodities, and which Arrighi takes to be the equivalent of the *M->C* component of Marx's formula. The other is a period of 'financial expansion', in which profits come primarily from financial enterprises and not from the extension or intensification of the production and traffic in commodities, and which Arrighi takes to be the equivalent of the *C->M1* segment of Marx's formula. Arrighi describes these expansions thus:

> Material expansions occur because of the emergence of a particular bloc of governmental and business agencies which are capable of leading the system towards wider or deeper divisions of labour. These divisions of labour, in turn, increase returns in capital invested in trade and production. Under these conditions, profits tend to be plowed back into further expansion of trade and production more or less routinely, and knowingly or unknowingly, the system's main centers cooperate in sustaining one another's expansion. Over time, however, the investment of an ever-growing mass of profits in the further expansion of trade and production inevitably leads to an accumulation of capital over and above what can be reinvested in the purchase and sale of commodities without drastically reducing profit margins. Decreasing returns set in; competitive pressures on the system's governmental and business agencies intensify; and the phase is set for the change of phase from material to financial expansion.42

Arrighi identifies four major systemic cycles of accumulation, or 'long centuries', in western capitalism: the Genoese, the Dutch, the British, and the United States. He also thinks it possible that Japan/East Asia is on the verge of constituting itself as a successor (fifth) major systemic cycle. In addition, he identifies (in his response to Pollin) three different sources of financial profit that have a particular role in the processes of financial expansion:43

a source in which 'cut-throat intercapitalist competition' creates excessive liquidity that finds an outlet in financial transactions.

a source in which the significant redistribution of income to capitalists creates conditions for the profitability of such financial transactions.

a source in which the liquidity generated by this profitability moves from centers that are no longer capable of sustaining material expansion to those that are developing this capability, thereby creating the conditions for the supersession of the previous phase of financial expansion.

Arrighi says explicitly that 'all financial expansions were eventually superseded by a new phase of material expansion'.44 This may be true of all systemic cycles of accumulation up to the present one-- on this I have no quarrel with Arrighi (and Pollin for that matter). But unless this characterization of succeeding phases and cycles is to be elevated into a teleology that runs a staunchly dialectical course (a 'logic of world economic history' in the manner of Hegel45), the possibility must be left open that there may be no recognizable successor systemic cycle of accumulation to the present one, and that the primacy of the current systemic cycle may thus extend indefinitely into the (so far anticipatable) future. Or for there to be a series of transformations, however prolonged, of the current phase of financial expansion, so that by the time this series of transitions has progressed far enough, there may no longer be a form of capitalism that resembles the presently regnant and American-sponsored systemic cycle, or indeed for there to be anything like a systemic cycle of accumulation in the way characterized by Arrighi.46 If these scenarios were to obtain, then Marx's insight that the capitalist has no intrinsic interest in the value of commodities he or she buys or finances so long as the commodities in question can be sold for a profit will be borne out, and the blissfully 'utopic' situation for the capitalist, whereby the capitalist moves directly from the initial sum of money to yet more money (the circuit *M->M1*), bypassing altogether the production and exchange of commodities (the circuit *M->C->M1*), will have materialized. If this new regime of accumulation should be implemented, then, *pace* Arrighi and Pollin, this will be something that occurred without the accompanying impetus to generate conditions for a new and succeeding phase of material expansion: there would simply be an indefinitely ongoing process of financial expansion. But how is this possible, given that profits necessarily have at some point to come from the production and circulation of commodities? (This is not to suggest that there will no longer be any material or commodity-production expansions if these scenarios were materialized-- a material expansion may take place in future, but it will not do so according to the ebb-and-flow logic outlined in *The Long Twentieth Century*.)

For Arrighi the two circuits or phases of capital are in a relationship of oscillation: to put it somewhat schematically, when capitalists can't make enough profits from commodity production or have over-accumulated as a result of commodity production, they switch to financial transactions, and return to commodity production (only) when the speculative bubbles generated by excessive financial expansion have burst. In other words, Arrighi conceives of the relationship between phases as one of succession or alternation, i.e. as an essentially temporal relationship. But a significant body of work on recent international trade and financial regimes would seem to indicate that the relationship between the financial and productive capital is now primarily spatial, so that what we have in world capitalism today approximates more to a complex amalgam of two simultaneously existing subregimes, one that is purely financial, and one represented by commodity production and its attendant forms of productive capital.47 The huge disparity between the sizes of these subregimes needs to be emphasized again: not just the scale of the pension, insurance, mutual and hedge funds noted in Section V above, but also the sheer volume and value of trading on foreign exchange markets (the world's largest financial market), which in 1994 was nearly 40 times the daily value of cross-border trade.48

The international system of financial markets has undergone a series of structural transformations since 1972, several of which are still taking place.49 According to Randall D. Germain, these include changes in the sources of international credit and a new capital recycling mechanism, and together they began a revolutionary transformation in the 1980s that has effects which are still continuing. The changes in the sources of international credit are well-known, but, says Germain, the more important changes have taken place in the capital recycling mechanism, i.e. 'the form of credit made available to the world economy, in the networks of monetary agents which control access to this credit, and in the relationship between public monetary agents and private monetary agents within the global financial system'.50 As a result, Germain goes on to say, a new era in international finance has emerged, one that can appropriately be called 'decentralized globalization', and which is to be associated with the enfranchisement of a whole range of new and not always disciplined systemic creditors,51 the rise generally of unstable institutional arrangements,52 the diminished authority and effectiveness of state and public monetary institutions (except when it came to leading the way in deregulating financial markets53), the complementary growth in the authority and effectiveness of private monetary institutions (towards whom the balance of power has now gravitated), and the changing of the criteria used to govern access to flows of mobile capital (these have moved in favor of the interests of private agents54). While private institutions have grown in importance, the state continues to have a role since capital mobility is not perfect, in at least two respects. One is that the state still possesses a degree of macroeconomic policy autonomy, though this room for manoeuvre is nonetheless circumscribed by the global integration of financial markets and by the propensity of states in this situation to allow private agents use of their policy instruments in ways which effectively make these agents proxies for state and public authority. The second is the preeminence enjoyed by the American, German, and Japanese governments and their policies in determining the course and constitution of global financial markets, and allied with this is the systemic centrality enjoyed by the financial markets in New York, Tokyo and London. But this state capability notwithstanding, today no single state or public authority has effective control of the international financial system, which was not the case in Arrighi's two most recent systemic cycles of accumulation, the US and the British, which gave markets in New York and London a clear and decisive primacy in those systems of accumulation. The result is a growing regionalization of interest rates and the declining importance of reserve requirements as financial institutions become more hybridized and their resources more interchangeable as a result.55

There is no unitary, comprehensive model of how this global financial system (which can appropriately be viewed as an *M->M1* subregime) relates to the production and exchange of commodities (which constitutes a *C->M1* subregime). The dynamics of the relation between these two subregimes as it involves the economic system of a particular country (or group of countries) or region is inflected by path dependency, so that the economic activities that form this particular dynamic necessarily occur within, and have outcomes that are determined by, an always specific structure of political and social relations, a structure which *that* country or group of countries may or may not share with other countries or groups of countries.56 Some countries-- Hong Kong and Singapore come readily to mind because their economies hinge crucially and overwhelmingly on the provision of financial services and the undertaking of a variety of *entrepôt* functions-- display a very substantial embeddedness in the financial subregime or circuit of capital *M->M1*, whereas other countries-- Taiwan or Brazil are good examples-- which are much more dependent on manufacturing are more profoundly embedded in the commodity-production subregime or circuit of capital *C->M1*, and still others-- the United States (especially) and Japan-- evince a powerful embeddedness in both of these subregimes. The forms of embeddedness in these subregimes are inevitably somewhat stylized in this account, since there is no such thing as a pure or perfect regime of financial enterprises nor one of commodity-production. And since there is in principle a potential multiplicity of forms of path dependency and embeddedness, different countries can relate in very different ways to one of both of these subregimes. But what of the claim, made by Arrighi and Pollin that (in the latter's words) 'the *M->M1* circuit of pure financial deals operates successfully only because this operation always presupposes a newly successful *M->C->M1* circuit'?57

In the account being canvassed here, the financial capital subregime (*FCSR*) can stand in a variety of relationships to the productive capital subregime (*PCSR*), and each such relationship will have its own particular dynamism, though it will certainly be possible for us to categorize the different kinds of relationship and their accompanying dynamism, and to formulate principles that govern the relationships and dynamisms under consideration. In dealing with Pollin's question (albeit as filtered through our nomenclature), a great deal will depend on whether the *FCSR* happens to be in a relation of subordination or superordination to the *PCSR*. In a capitalist order, the survival or continued viability of this or that *FCSR* or *PCSR* is wholly contingent on the capacity of that particular subregime to generate continued surpluses. Failure to do this would amount to a crisis for that subregime and for the capitalist system which it embodies. This is the only absolute necessity incumbent upon any system or form of accumulation as long as capitalism prevails. To continue to extract surpluses a regime has to enable its agents or instruments to find outlets or markets into which these surpluses can be channelled. Determining the subordination or superordination of an *FCSR* in relation to a *PCSR* will therefore require a determination to be made of their respective (and always path dependent capacities) to generate surpluses.

Judged on the basis of the respective scale of the surpluses they have generated, there is compelling evidence that since the end of the 'Golden Age' (and especially more recently) *FCSR* and not *PCSR* has been the primary capitalist subregime. To cite some evidence from Doug Henwood:

> From 1982, the beginning of the great bull market, until 1989, the end of the LBO era, the market value of nonfinancial corporations' stock rose \$1.83 trillion (from \$1.38 trillion to \$3.21 trillion), and the value of corporate bonds outstanding rose \$519.1 billion (from \$407.0 billion to \$926.1 billion). But while stocks rose 133%, and bonds, 128% (and of course most of the gain in bonds was the result of new issues, not capital gains on old ones), business sector productivity rose 12.6%, and the broadest productivity measure of all, real GDP per hour worked throughout the entire economy (including government and nonprofit sectors), rose 6.3%-- quite weak by historical standards.58

The primacy of *FCSR* over *PCSR* in the last two decades or so is palpable, and so is the fact, given growth of this magnitude, that surpluses are being recycled into financial expansion and not (so much) into commodity-production. With generally weak levels of productive output, the threat of an immense over-abundance of commodities being left unsold is thereby reduced-- and it is this threat which lies at the heart of the insistence (which shows itself in Pollin's question) that financial capital can continue to have life only if the system of accumulation it subserves maintains or increases productive output (i.e. incorporates a 'successful *M->C->M1* circuit'). Of course commodities 'have' to be produced, but in the current system of accumulation this is being left to the low labour-cost economies who function therefore as suppliers for the markets of the high-income countries. Arrighi himself notes this when he says that '[the] main structural feature of the emergent [East Asian] regime remains the provisioning of wealthy markets with products that embody the cheap labor of poor countries'.59 But he then goes on to say that

> Nevertheless, the "informality" and "flexibility" of the Japanese multilayered subcontracting system, combined with the abundance of parsimonious and industrious labor in the East Asian region, endow Japanese and East Asian capital with a distinctive advantage in the escalating global race to cut labor costs. It is precisely in this sense that the emerging East Asian regime of accumulation is a negation of the old US regime. (p. 348)

However, it is clear that there is no such 'global race' (let alone one that is 'escalating') to cut labour costs, since the foreign direct investment that targets such low-cost labour in developing countries is being aimed very specifically at a tiny minority of countries: as was indicated above (in note 37), the World Bank's figures show that two-thirds of the world's FDI goes to a mere 8 less-developed countries, and that 50% of the 93 less-developed countries receive little or none. There is a quest for low-cost labour, while some features of its general trajectory may conform to the one delineated by Arrighi, it is not one that is by any means global: on the contrary, the search or 'race' for cheap labour has a marked regional structure (Africa and most of Latin America are effectively disqualified from participation from the outset), and its direction within that structure is even more highly selective. The quest for cheap labour subserves the imperative of stocking the markets of the wealthy nations, granted, but the over-accumulations of the wealthy nations are not allowed to saturate commodity-producing domains located in low-income countries (i.e. domains which belong to the *PCSR*): instead, in the currently prevailing capital allocation mechanism these surpluses are plowed-back into dealings on world-wide financial markets (the *FCSR*), and when surpluses do find their way to the less-wealthy countries, they do so through the intermediation of these financial markets, which means that they can be pulled-out of the low-income countries at extremely short notice.

Attention also needs to be paid to the entirely new configurations of speculative and industrial or commercial capital that now exist: many corporations nowadays derive profits from speculation as well as the enterprises they are more standardly associated with, and so the need to look for outlets for surpluses in new commodity-producing circuits is less pressing. For instance, since 1993 American Airlines has been hawking its own mutual fund in conjunction with its frequent-flier programme; and in the US the quasi-federal agencies, the Federal National Mortgage Association ('Fannie Mae') and the Federal Home Loan Mortgage Corporation ('Freddie Mac') buy up mortgage loans from banks and thrift societies and package these into bonds that are then sold on the securities market (a process therefore known as securitization, and which was responsible for $1 trillion in outstanding securities in 1996).60 Money continues to be invested in a few developing countries of course, with East Asia being the primary beneficiary until its economic collapse. But even here the traffic is almost entirely one-way: in 1994, foreign direct investment accounted for 50% of East Asia's net capital flow, and portfolio investment for a further 24%; foreign direct investment moved from $1.3 billion (10% of net capital flows) in 1980 to $43 billion (or 50%) in 1994, and portfolio investment grew from nil to $18 billion (or 24% of capital flows) in the same period.61

(East Asia's current crisis can be attributed in part to this almost complete reliance on foreign capital, especially on the part of the so-called 'second-tier' East Asian newly industrialized countries (Indonesia, Malaysia and Thailand). Arrighi does quite plausibly say that the centers of the emerging regime of accumulation will receive a surge of foreign capital drawn to them by the prospect of higher rates of profit than those available at the centers of the declining system. But the heavy reliance of the East Asian countries on foreign investment possesses several troubling features that immediately qualify any judgement of them as the (collective) potential successors of the dominant but ostensibly fading US regime. In 1991-3 Malaysia had an annual average ratio of foreign direct investment to Gross Domestic Capital Formation of 24.6%. This also accounted for its high 1995 services account deficit ($6.7 billion), caused by foreign companies repatriating their profits. Malaysia also has a problem with low total factor productivity, which grew at an annual rate of only 2.2% between 1991 and 1996. At the same time Malaysia has seen a massive credit expansion, averaging over 30% a year between 1994 and 1997, and constituting around 160% of its GDP, with bank loans alone approaching 57% of GDP. In Thailand, every $1 exported contains 43 cents of imported materials, so dependent are its export-oriented manufacturing sectors on imported parts. Thailand also has a large foreign debt total of $90 billion. Indonesia had a foreign debt total that stood at $60 billion at the time of its 1997 IMF bailout. Nonperforming loans in the Southeast Asian banking system amount to approximately $73 billion, over 13% of Southeast Asian GDP.62 These therefore hardly seem like nations belonging (with Japan) to the regime of accumulation seen by Arrighi and many others as the potential successor to the possibly declining United States regime.63

Together, the features that most strongly define actually existing world-capitalism point inexorably to the relative autonomy of financial (and 'fictitious') capital from productive capital, that is, the autonomy of the *FCSR* from the *PCSR*. The embeddedness of a national economy in either or both of these subregimes is strongly path dependent, and this may, for the economy of that particular nation, either enhance or reduce the autonomy of the *FCSR* in relation to the *PCSR*, or vice versa. But in reality there is no such thing as an absolute autonomy or an absolute integration of these subregimes: financial capital markets and regimes and productive capital markets and regimes are necessarily related to each other, and this because funds are free to move between them, and policies made in regard to the one necessarily affect the other.

At the same time the world-capitalist system that has emerged since the end of the 'Golden Age' is in a condition of crisis, and this because the surpluses yielded by the *FCSR* enable those national economies most deeply embedded in it to escape many of the disciplines that are imposed on those economies which function by being embedded primarily in the *PCSR* (let alone the stark inequities that confront those in the 'Fourth World' that belongs to neither subregime). The most telling illustration of this is the recent 'accomplishment' of the US in eliminating the massive fiscal deficits incurred during the Reagan and Bush administrations, thanks largely to tax revenues garnered from the current stock-market boom (stocks on the New York Stock Exchange rose in value by 33% in 1997)-- only a country as widely and powerfully embedded in the *FCSR* subregime as the US is today can afford itself this option (which must make the US-- now able to comport itself as the 'investor aristocracy' of this world-capitalist system-- an object of envy for many a poor country struggling with its fiscal deficits but with no financial-market resources at hand to bring it this kind of miraculous relief[64]).

World-wide economic polarization in its current manifestation is driven more by the divorce (always politically instituted and maintained) between financial and productive capital, and less by the mechanisms of unequal exchange as typically understood in dependency theory. In the typical account, unequal exchange exists because of an international division of labour which allows the industrial countries to commandeer industrial productive capacity while consigning low-income countries to the production of primary commodities (this being the phenomenon of compulsory maldevelopment described by Samir Amin and others in the dependency and uneven development school), because international trade on these terms can never be mutually advantageous. However, in the account being canvassed here, while there still is unequal exchange-- it being undeniable that even in the era of financial capital (and its fundamental divorce from productive capital) the less-wealthy countries function essentially as producers of primary commodities and as providers of cheap labour-- the main source of international economic polarization today is precisely the autonomy of finance capital from productive capital. This autonomy establishes asymmetries between the high- and low-income countries that appear to be deeply entrenched, and so the question remains whether, and if so to what degree, these asymmetries are surmountable.

Surmounting International Economic Polarization

The development-policy prescriptions-- trade and price liberalization, deregulation, privatization, and closer links with the world economy-- of international financial institutions such as the World Bank and the IMF, as well as those nations, primarily the United States, who underwrite the neoliberal 'Washington Consensus', are largely irrelevant to the economic situation of the lower-income countries, many of whom are still struggling with varying degrees of success to make the long-term structural adjustments necessitated by the major recession and debt crisis of the 1980s.[65] For these institutions and wealthy countries swimming with the tide of global economic integration is the only way forward for the nations of the South. The dependency and uneven development paradigm has long been associated with the proposed delinking of the economies of the South from those of the North.[66] This delinking strategy is commended because of the conviction of those who uphold this paradigm that the situation of the lower-income countries cannot be improved structurally within the terms of the prevailing regime of accumulation. As we have seen, a judicious scrutiny of the available evidence is hardly likely to controvert this conviction. More recently, Lance Taylor, who has made a number of careful criticisms of the World Bank over the years but who is hardly to be regarded as a marxist, has recommended a partial delinking on 'narrowly technical grounds'.67 Taylor has analyzed extensively the data regarding the open trade and capital market strategies of a cross-section of 50 lower-income countries (going as far back as the economically more propitious 1960s) and found few gains and some losses accruing from these exogenously-oriented policies. He proposes that these countries should dispense on a piecemeal basis with linkages to the markets of the North that bring 'the least benefits' or exact 'the greatest costs', concluding that a limited and selective autarky of this kind offers them a better bet for economic survival-- as Taylor puts it, 'the inwardly oriented resource allocation strategy seems the least risky, especially for large countries' (p. 141).68

Given that openness to global capital flows makes a lower-income country more vulnerable to external shocks and to the onset of financial crises such as the one now occurring in Southeast Asia, it would seem to be in the best interests of the lower-income countries to buck the wisdom of the neoclassical consensus and attempt a strategic and selective delinking along the lines recommended by Lance Taylor. This would at least place the less-wealthy countries in a better position to exert greater control over their macroeconomies as they implement development policies that are endogenously oriented, as opposed to placing their faith in roller-coaster markets that have the lower-income countries at their mercy. With this kind of control, and more democratic political institutions, they can at least pursue more consistently, if not more seriously, the project of an economic liberation that hopefully will start to bring to an end the newest form of economic dependency.

Notes

1 An abbreviated version of this paper was presented at the Modern Language Association of America Annual Meeting in Toronto in December 1997. I am grateful to David Siar for his invitation to be on the panel that he convened on this occasion.

2 On the 'Golden Age', see Stephen A. Marglin and Juliet B. Schor, eds., *The Golden Age of Capitalism : Reinterpreting the Postwar Experience,* Oxford 1990. See also Charles P. Kindleberger, 'Why Did the Golden Age Last So Long?', in his *The World Economy and National Finance in Historical Perspective,* Ann Arbor 1995, pp. 163-80. For an account of the course taken by the advanced capitalist countries in the succeeding decade, the 1980s, see Andrew Glyn, 'The Costs of Stability: The Advanced Capitalist Countries in the 1980s', *New Left Review* 195(1992), pp. 71-95.

3 For such skeptical arguments about the 'openness' of the world economy, see David Gordon, 'The Global Economy: New Edifice or Crumbling Foundations?', *New Left Review*, 168(1988), pp.24-64; and Paul Hirst and Grahame Thompson, 'The Problem of "Globalization": International Economic Relations, National Economic Management and the Formation of Trading Blocs', *Economy and Society* 21(1992), pp. 357-96. It should be noted though that Gordon's data only goes up to 1984 (the world's economy has certainly become more open since then), and that Hirst and Thompson seem to think that 'globalization' is only truly so if it involves the elimination of the state, which of course has not ceased to exist and to be effective in international economic management, and from which state of affairs they conclude mistakenly that there is no true globalization. Robert Pollin derives the terms 'Golden Age' and 'Leaden Age' from the writings of Joan Robinson. See his 'Contemporary Economic Stagnation in World Historical Perspective', *New Left Review* 219(1996), pp. 109- 18.

4 For recent accounts of these problems with the development paradigm, see David L. Blaney, 'Reconceptualizing autonomy: the difference dependency theory makes', *Review of International Political Economy* 3(1996), pp. 459-97; and Jan Nederveen Pieterse, 'Dilemmas of Development Discourse: The Crisis of Developmentalism and the Comparative Method', Development and Change 22(1991), pp. 5-29, and 'The development of development theory: towards global criticism', *Review of International Political Economy* 3(1996), pp. 541-64. I use the terms 'developed', 'less developed', 'underdeveloped', etc., in a suitably cautious way, especially since they have had such a problematic intellectual and political lineage: as many critics of these notions have pointed out, there is no underlying economic teleology for any developmental path, and, moreover, 'development' is too easily conflated with 'economic growth' per se (thereby occluding the question of the impact of such growth on human well-being, the role of women in production, the environment, and so on). I am sympathetic towards attempts at providing a less tainted nomenclature, but since I want to engage fairly directly with this established intellectual tradition, I have decided to retain the familiar though troubled and troubling lexicon it has developed over the course of several decades. I shall however complement it with the triptych high income ('core')-middle income ('semiperipheral')-low income ('peripheral') countries, as standardly used by world-system theorists, with the caveat that this triptych too is not without its problems.

5 Especially important here are the views of those who maintain that the important consideration in analyzing the functions of the state in economic development is the politics of the regimes, institutions, classes, and groupings that are inserted into this or that state-process or state-project-- the state being anything but a static form or edifice that can be counterpoised to 'markets' or 'multilateral institutions' or 'transnational corporations', etc. See, for instance, Bruce Cumings, 'The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences', in Frederic Deyo, ed., *The Political Economy of the New Asian Industrialism*, Ithaca 1987, pp. 44-83; Chalmers Johnson, 'Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan', in Deyo, ed., pp. 136-64; Deyo, *Beneath the Miracle: Labor Subordination in the New Asian Industrialism*, Los Angeles and Berkeley 1989; Sylvia Maxfield,

Governing Capital: International Finance and Mexican Politics, Ithaca 1990; Jung-en Woo (now Meredith Woo-Cumings), *Race to the Swift: State and Finance in Korean Industrialization*, New York 1991; William Reno, *Corruption and State Politics in Sierra Leone*, Cambridge 1995; and Mahmood Mamdani, *Citizen and Subject: Contemporary Africa and the Legacy of Late Colonialism*, Princeton 1996.

6 For useful general discussion of these two principles and their implications, see, inter alia, Arturo Escobar, *Encountering Development: The Making and Unmaking of the Third World*, Princeton 1995, Jorge Larrain, *Theories of Development: Capitalism, Colonialism and Dependency*, Cambridge 1989, Colin Leys, *The Rise and Fall of Development Theory*, Bloomington 1996, and John Toye, *Dilemmas of Development: Reflections of the Counter- Revolution in Development Economics*, Oxford 1993 (2nd ed.).

7 United Nations Development Programme, *Human Development Report 1997*, Oxford 1997, *passim*.

8 The claim that the net worth of 10 billionaires is 1.5 times the combined national income of the 48 least developed nations is the focus of an article titled 'Seven richest could end world poverty' by Larry Elliott and Victoria Brittain in the *Manchester Guardian Weekly*, June 22, 1997. *The Human Development Report* estimates that the cost of its proposed $80 billion anti-poverty programme could be covered by the wealth of seven billionaires. The 'structural adjustment' programmes advocated by the International Monetary Fund and the World Bank for developing countries require the wholesale elimination of expenditure on education, health, and social services, and this in countries that may be experiencing a decrease in the years of average life expectancy!

9 Thus, in 1994, the GNP per capita in Rwanda and Mozambique was $80 and $90 respectively, and in the US $25,800, Japan $34,630, and Switzerland $37,930. Average life expectancy at birth in Mozambique was 46 years (no figures were available for Rwanda), in the USA 77 years, Switzerland 78 years, and Japan 79 years. See the World Bank's *World Development Report 1996*, Oxford 1996, pp. 188-9

10 These points are made by Ajit Singh, from whom these figures are taken, in his 'The Actual Crisis of the 1980s: An Alternative Policy Perspective for the Future', in A.K. Dutt and K.P Jameson, eds., *New Directions in Development Economics*, Aldershot 1992, pp. 104ff. Singh also notes that virtually throughout the 1980s, a decade of economic recession, the Latin American and African countries made net resource transfers to the developed countries, rather than vice versa: in 1984-85 alone the Latin American and African countries transferred $40 billion and $5 billion respectively to the developed nations.

11 The claim that 1% of global income is all that is needed to eliminate poverty world-wide is perhaps unrealistic, given the complex causal relationship between economic factors and human capacities that has to be taken into account in any characterization of poverty. The Human Development Report tries to reflect this complexity by having two

sets of indices of poverty ('income poverty' and 'human poverty'), but this only emphasizes the difficulties involved in making plausible the claim that global poverty can be eliminated by expending 1% of the world's income.

12 See Stephany Griffiths-Jones and Barbara Stallings, 'New global financial trends: implications for development', in Stallings, ed., *Global Change, Regional Response: the new international context of development*, Cambridge 1995, pp. 143-73. The data in this paragraph is taken from this article. See also Laurence Harris, 'International Financial Markets and National Transmission Mechanisms', in J. Michie and J. Grieve Smith, eds., *Managing the Global Economy*, Oxford 1995, pp. 199-212; and S. Sen 'On Financial Fragility and its Global Implications', in Sen, ed., *Financial Fragility, Debt and Economic Reforms*, Basingstoke 1996, pp. 35-59. A good summary of the changes that have taken place in global financial markets in the last two decades is to be found in Griffith-Jones, 'Regulatory Implications of Global Financial Markets', in Sen, ed., *Financial Fragility*, pp. 174-97.

13 World Bank, *World Debt Tables: External Finance for Developing Countries*, Washington DC 1996, p. 93. East Asia is also the largest source of FDI to developing regions, with a 1993 outflow of $4.6 billion.

14 World Bank, *World Debt Tables: External Finance for Developing Countries*, p. 4.

15 See Griffith-Jones and Stallings, 'New global financial trends', p. 162. Mohsin S. Khan, 'Recent Developments in International Financial Markets', *Asian Development Review*, 13(1995), p. 47, points out that almost $60 billion in bonds was issued in 1993, the third successive year in which bond issues doubled in relation to the preceding year. (Though there was a sharp fall from this 1993 peak after the Mexican economic crisis at the end of 1994.) The IMF's *Private Market Financing for Developing Countries*, Washington DC 1995, says that the tightening of US monetary policy earlier in the year caused a market instability that reduced private financing to developing countries, but that most countries had recovered by the middle of 1995 (p. 2). In 1994 developing countries placed $58.8 billion in bonds, despite the financial crisis of that year.

16 See the individual country tables in the *World Debt Tables: External Finance for Developing Countries*.

17 Doug Henwood, *Wall Street*, London 1997, is a readable and informative account of many of these new financial instruments and the markets in which they operate. See also Griffiths- Jones and Stallings, 'New global financial trends', p. 153; and Mohsin Khan, who notes that trade in interest rate swaps alone grew from $0.7 trillion in 1987 to $1.5 trillion by the second half of 1991. The combined assets of pension funds in France, Germany, Japan and the United Kingdom stood at around $5.7 trillion by the end of 1991. According to the *Manchester Guardian Weekly*, 9 November 1997, the US now has more than 2,800 mutual funds controlling over $4 trillion, with $220 billion being placed in them in 1996 alone (nearly double the 1995 total of $242 billion. At the time of the October 1987 crash there were only 812 US mutual funds managing s total of $242

billion. The World Bank estimates that the combined portfolios of US pension funds, mutual funds and insurance companies amounted to $8 trillion in 1994. On the 'short-termism' of pension fund managers, see also Richard Minns, 'The Social Ownership of Capital', *New Left Review* 219(1996), pp. 42-61. Keynes's of course had already made a famous critique of stock-market 'short-termism' in Chapter 12 of *The General Theory* in 1936.

18 Asian Bank, *Asian Development Outlook 1994*, Oxford 1994, p. 18. The Asian Bank of course welcomed the processes of liberalization that led to the surge in portfolio investment.

19 Ajit Singh, 'Portfolio Equity Flows and Stock Markets in Financial Liberalization', *Development* 40(1997), p. 23. Singh also makes the point that in 1992 there were 6700 companies quoted on the Indian stock market, compared with 7014 companies in the US, 1874 in the UK, and 665 in Germany. In addition, the 'average daily trading volume on the Bombay stock market has been about the same as that in London-- about 45,000 trades a day' (p. 23).

20 Mohsin Khan, 'Recent Developments', p. 50. Henwood, *Wall Street*, p. 16, provides a table which shows that while the UK, Japan, and the USA had in 1994 shares of world stock market capitalization that amounted to 8%, 24.5%, and 33.5% respectively, the share for the emerging world totalled a mere 12.7%: Malaysia had 1.3%, Taiwan 1.6%, Thailand 0.9%, the Philippines 0.4%, Korea 1.3%, and Indonesia 0.3% of world stock market capitalization that year. The East Asian crisis will almost certainly necessitate a downward revision of these figures (taken by Henwood from International Finance Corporation, *Emerging Stock Markets Factbook 1995*).

21 Mohsin Khan, 'Recent Developments', p. 50. Khan is a World Bank official, and I have deliberately chosen to use his assessment of the impact of extraterritorial financial markets on the lower-income countries, since this assessment makes plain aspects of liberalization and deregulation that do not accord with the encomiums that stream from the Bank where programs of liberalization and deregulation are concerned.

22 The capacity of presentday stock markets to deviate from 'fundamentals' for considerable periods of time is found not only in the stock exchanges of the emerging countries but also in the established stock markets of London and New York. On this, see Ajit Singh, 'Portfolio Equity Flows', p. 24.

23 For the notion of 'fictitious capital', see Marx, *Capital*, Moscow 1967, vol 3, part V. See also Suzanne de Brunhoff, 'Fictitious Capital', in J. Eatwell, M. Milgate and P. Newman, eds., *The New Palgrave Marxian Economics*, New York and London, 1990, pp. 186-7. Laurence Harris has invoked this notion to explain the highly autonomous character of presentday transnational capital markets. See his 'Alternative Perspectives on the Financial System', in Harris, J. Coakley, M. Croasdale and T. Evans, eds., *New Perspectives on the Financial System*, London 1988. 80% of all foreign transactions involve a round-trip of a week or less, and most take place within a single day. For this,

see James Tobin, 'Prologue', in M. ul Haq, I. Kaul and I. Grunberg, eds., *The Tobin Tax: Coping with Financial Volatility*, Oxford 1996, p. xii.

24 Khan, p.52. Granted that there is no consensus on the effects created in host country financial markets by rises in foreign interest rates are concerned. There is also no consensus on the specific impact of foreign portfolio investment on domestic country exchange rates, especially expected exchange rates. Empirical work is still in its relatively early stages, and a few studies of the Mexican collapse of December 1994 have only just appeared in the last couple of years. One study that shows a correlation between the inflow/outflow of portfolio investment into Mexico and the behavior of US interest rates is Ilene Grabel, 'Marketing the Third World: The Contradictions of Portfolio Investment in the Global Economy', *World Development* 24(1996), pp. 1761-76. The often highly complex transaction mechanisms for these new markets have not been around for very long, and information on them is still scarce and incomplete. It will be interesting to see what similar empirical studies of the current Southeast Asian crisis will reveal in this regard. A more judicious assessment than Khan's of the potential problems posed by transnational portfolio capital of this kind is given in R. Devlin, R. Ffrench-Davis and S. Griffith-Jones, 'Surges in Capital Flows and Development: An Overview of Policy Issues', in Ffrench-Davis and Griffith-Jones, eds., *Coping with Capital Surges: The Return of Finance to Latin America*, Boulder 1995, pp. 225-60.

25 See Griffith-Jones and Stallings, 'New global financial trends', p. 164.

26 For these figures, see James Tobin, 'Prologue', p. xvi. According to the World Bank, in 1990 there were 232 emerging market funds throughout the world, with net assets totalling $13.7 billion. By mid-1995 these had increased nearly sixfold, with estimated net assets of about $123 billion. See World Bank, *World Debt Tables: External Finance for Developing Countries*, p. 20.

27 In 1995 Malaysia had a services account deficit of $6.7 billion (20 billion ringgit) due mainly to foreign companies repatriating profits from their investments. For this see the *Far Eastern Economic Review*, December 12, 1997, p. 65. The propensity for 'fast money' to gravitate towards property development and speculation is borne out by the fact that in Kuala Lumpur, the capital of Malaysia, the volume of newly-constructed office space in 1997 alone exceeded the volume for the whole of the preceding ten years, and the supply of retail space in 1998 will represent a rise of 140% from 1995 levels. For this see the *Far Eastern Economic Review*, May 15, 1997, p. 86. Doug Henwood, p.111, cites data provided in United Nations Centre on Transnational Corporations, *World Investment Report* 1991, which shows that in the late 1980s transnational direct investment grew at 2-3 times the rate of trade, whereas in the 1970s and early 80s the growth rates of the two had been in rough parity.

28 On the inconsistent triad of capital mobility, stable exchange-rates, and monetary policy independence, see Benjamin J. Cohen, 'Phoenix Risen: The Resurrection of Global Finance', *World Politics* 48(1996), pp.268-96. On the thesis that in principle capital mobility disposes governments to seek a multilateral cooperative framework for

monetary and fiscal policy adjustments, see also David M. Andrews, 'Capital Mobility and State Autonomy: Toward a Structural Theory of International Monetary Relations', *International Studies Quarterly* 38(1994), pp.193-218; and Andrews and Thomas D. Willett, 'Financial Interdependence and the State: International Monetary Relations at Century's End', *International Organization* 51(1997), pp. 479-511. There is an ample literature indicating, globalization notwithstanding, national governments do have room to make macroeconomic policy changes that stabilize overseas capital flows. See, inter alia, Laurence Harris, 'Financial Markets and the Real Economy', in S. Sen, ed., *Financial Fragility*, pp. 60-72; and John B. Goodman and Louis W. Pauly, 'The Obsolescence of Capital Controls?: Economic Management in an Age of Global Markets' *World Politics* 46(1993), pp. 50-82. Goodman and Pauly make the argument that there not be a separation between (longer-term) foreign direct investment and (short-term) portfolio capital since the political arrangements devised to deal with the latter will have implications for the former (p. 81).

29 Andrews and Willett, 'Financial Interdependence and the State', p. 487, make the relevant point that the United States can pursue fiscal policies that cause significant fluctuations in the dollar, whereas the course taken by the dollar on international currency markets rarely affects US fiscal policy. Few other countries enjoy the luxury of being able to overlook to such a degree the impact of fiscal policy on their currencies and vice versa. The greater economic flexibility afforded wealthy countries such as the United States was noted over 50 years ago by Albert Hirschman in his *National Power and the Structure of International Trade*, Berkeley 1945. For the problems small states encounter when international markets are able to constrain domestic economic policy, see Peter J. Katzenstein, *Small States in World Markets*, Princeton 1985.

30 There were of course other factors at work in the Mexican collapse, not least the vast amounts of foreign equity capital that flowed into Mexico in the 1990s-- between 1992 and 1994, the average annual capital inflow rate was 8% of GDP (as opposed to 5% of GDP during the previous peak in 1977-81). The share price index in the Mexican stock market rose from 250 in 1989 to 2500 in 1994, even though its average annual GDP growth rate between 1990 and 1994 was only 2.5%, and even though Mexico's current account deficit in 1993 was $20 billion, representing 6% of GDP (it rose to 9% of GDP in 1994). On the matter of high interest rates, it should be acknowledged that the Bundesbank was also pursuing a policy of high interest rates in the early 1990s. After the collapse, Mexico's real GDP fell by 7% in 1995, and that in Argentina by 5% through a 'knock-on' effect. For this, see Ajit Singh, 'Portfolio Equity Flows', p. 26. The similarities between Mexico and Argentina and some of the East Asian countries two years later are easy to notice.

31 The much-vaunted US expansion of the 1990s is less impressive when put in perspective. The average annual increase of GDP in real terms (adjusted for inflation) up to the end of the third quarter of 1997 has been a mere 2.2% since the previous peak in 1990. The two decades that succeeded the ending of the 'Golden Age', the 1970s and 80s, by contrast saw annual growth rates of approximately 2.75% and 2.95% respectively. The two decades of the 'Golden Age', the 1950s and 60s, experienced annual growth rates of

3.5% and 4.5% respectively. For these figures, see Jeff Madrick, 'Computers: Waiting for the Revolution', *The New York Review of Books*, March 26, 1998, p. 29. Japan is now in its sixth year of recession, and the Western European nations still face high levels of unemployment and low growth rates.

32 These 'market-friendly' injunctions are contained in the World Bank's influential 1991 *World Development Report: The Challenge of Development*, Oxford 1991, see especially p. 5. The already-mentioned *Human Development Report 1997*, after chronicling the widening gap between wealthier and poorer countries (a gap that has a great deal to do with the inhospitability poorer countries experience, 'systemically', at the hand of international trade regimes that use 'free trade' and 'open markets' as shibboleths), still brings itself to commend the market as a solution to the plight of the poor: 'Market competition offers an important way in which people, especially poor people, can escape economic domination by exploitative government, big landlords and big retailers' (p. 102).

33 For the World Bank's assessment of East Asia's economic success, see its publication *The East Asian Miracle: Economic Growth and Public Policy*, Oxford 1993. Robert Wade provides a fascinating account of the ways in which this Report was gerrymandered to fit the terms of the Bank's neoliberal ideology in his 'Japan, the World Bank, and the Art of Paradigm Maintenance: *The East Asian Miracle* in Political Perspective', *New Left Review* 217(1996), pp. 3-36. The Bank's recent *World Development Report 1997*, Oxford 1997, backtracks on its earlier and sheerly ideological hostility to the state, but tries to show that state intervention, whose effectiveness in some cases the Bank now grudgingly acknowledges, is none the less compatible with 'market-friendliness'. As Lance Taylor has noted in his 'Editorial: The Revival of the Liberal Creed-- the IMF and the World Bank in a Globalized Economy', *World Development* 25(1997), pp. 145-52, there have been other recent changes in the World Bank's policy disposition: the already-noted 'recognition of the importance of at least functional public intervention' and 'the need to provide supporting revenues; realization that controls on external capital movements and prudential regulation can help contain financial fragility; abandonment of the doctrine that raising the local interest rate will stimulate saving and thereby growth; initiatives to roll over or forgive the bulk of official debt owed by the poorest economies'. At the same time, Taylor rightly believes that the Bank is still some way short of adopting policies that fully support the economic advancement of lower-income countries. A very similar assessment is to be found in Ajit Singh, 'Openness and the Market Friendly Approach to Development: Learning the Right Lessons from Development Experience', *World Development* 22(1994), pp. 1811-23, who provides trenchant criticism of the Total Factor Productivity model that underlies the Bank's approach to developing countries. This model, says Singh, unrealistically assumes 'full employment of resources and perfect competition, none of which obtain in the real world. Moreover, it is a wholly supply-side model which ignores altogether the role of demand-factors' (p. 1813). The problem with Singh's argument, however, is his belief that the institutional basis for the Japanese model of economic growth was replicated by Taiwan and South Korea, with Indonesia and Malaysia possibly following close behind. The

latter part of this claim will appear wildly implausible to anyone with first-hand experience of the corruption-ridden bureaucracies of Indonesia and Malaysia.

34 For Arrighi, see *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, London 1994, and 'Workers of the World at Century's End', Review 19(1996), pp. 335-51. Though Arrighi is careful to acknowledge that 'it is not at all clear whether the emergent Japanese leadership can actually translate into a fifth systemic cycle of accumulation' (p. 335). I shall argue below that it is possible that the emerging or next system of accumulation may not be one that can be understood in terms of a national hegemony that makes intelligible or plausible the notion of a leadership exercised in these terms by Japan or anyone else. The view that the rise of the East Asian nations has started to put an end to US economic supremacy is complemented in some quarters by the conviction that their emergence as economic powers also effectively discredits dependency theory, which of course maintains that nations outside the capitalist 'core' like the East Asian economies find it structurally difficult if not impossible to leave behind their initial 'peripheral' or 'semiperipheral' developmental situations. For such a view, see Richard F. Doner, 'Limits of State Strength: Towards an Institutional View of Economic Development', *World Politics* 44(1992), p. 398; and Gary Hawes and Hong Liu, 'Explaining the Dynamics of the Southeast Asian Political Economy: State, Society, and the Search for Economic Growth', *World Politics* 45(1993), p. 630.

35 For these figures, see Minns, 'The Social Ownership of Capital', p. 43. Given the prolonged stock market boom of the last two and a half years, these asset-totals can be presumed to be even larger. Minns indicates that apart from the US and UK, the bulk of other pension fund holdings are to be found in Japan, the Netherlands, Ireland, Argentina, Peru, Columbia, and a few other South American countries.

36 The total for emerging nations with stock markets is taken from Henwood, p. 16. These countries are: Malaysia, South Africa, Chile, Taiwan, Thailand, Philippines, Korea, India, Mexico, Brazil, Indonesia, and China. The GDP totals for low-income nations are taken from the World Bank's *World Development Report 1996*, Oxford 1996, p. 210. The World Bank classifies a low-income nation as one with a GNP per capita of $725 or less in 1994, a middle-income country as one whose GNP per capita in 1994 was more than $725 but less than $8,956, and a high-income nation as one with a GNP per capita that exceeded $8,956 in 1994.

37 In this connection Lance Taylor has noted that '[half] the people and two-thirds of the countries in the world lack full control over their own economic policy. Expatriate "experts" managed by industrial country nationals and based in Washington DC regulate their macroeconomics, investment projects, and social spending'. See his 'Editorial: The Revival of the Liberal Creed', p. 145.

38 *World Development Report 1996*, pp. 188-9. By contrast, of the 21 high-income countries for which information is available, only 2 (Finland and Austria) experienced a decline in their average annual GNP per capita during 1985-94. Germany was the only high-income nation for which information was unavailable-- reunification in 1991 makes

any such computation unviable. The dismal trading position of many low-income nations must also be taken into account: in the ten-year period before 1996 the ratio of trade to GDP actually declined in 44 out of 93 less-developed countries, with two-thirds of the world's FDI going to a mere 8 less-developed countries, and with 50% of the 93 less-developed countries receiving little or none. On this see World Bank, *Global Economic Prospects and the Developing Countries* 1996, Washington DC 1996, *passim*.

39 On this, see Albert Fishlow, 'Economic Development in the 1990s', *World Development* 22(1994), p. 1826. Fishlow makes the point that the World Bank has consistently ignored the issue of income distribution, emphasizing instead the question of higher productivity, and I am indebted to his account in the rest of this paragraph.

40 Yilmaz Akyüz and Charles Gore, 'The Investment-Profits Nexus in East Asian Industrialization', *World Development* 24(1996), pp. 461-70, emphasize the importance in East Asian growth of overall capital accumulation and the role of government in speeding it up. Many analysts, including the World Bank, have tended to stress the importance of resource allocation for East Asian industrialization, at the expense of the interactions between profits and investment. Without wanting to generalize the East Asian model, the importance of profits and investment for growth highlighted by Akyüz and Gore puts in even plainer relief the predicament of many low-income nations, who simply do not have the resources to invest in growth. For Amin see his *Capitalism in the Age of Globalization: The Management of Contemporary Society*, various translators, London 1997. In my characterizations of uneven development and the 'theorizations' of it provided by marxists, I have had Amin's pioneering work most in mind, though I have of course tried to remain aware of the differences between him and other members of this tradition.

41 It is precisely for this reason that Ernesto Laclau regarded dependency theory as a deviation from marxism: according to him it eschews analysis of the mode of production and the relations of production (for Laclau the heart of marxism) in favor of the analysis of the system of exchange between nations. See his 'Feudalism and Capitalism in Latin America', *New Left Review* 67(1971), pp. 19-38.

42 Giovanni Arrighi, 'Financial Expansions in World Historical Perspective: A Reply to Robert Pollin', *New Left Review* 224(1997), p. 155. I take this description of his position from Arrighi's somewhat heated response to a review of his book by Robert Pollin. See Pollin, 'Contemporary Economic Stagnation in World Historical Perspective', *New Left Review* 219(1996), pp. 109-18. I don't mean to adjudicate in this exchange, and merely use part of Arrighi's response because it contains an excellent summary of the position he sets out in *The Long Twentieth Century*.

43 'Financial Expansions', p. 157.

44 'Financial Expansions', p. 157. Pollin agrees with Arrighi on this point (that all financial expansions are succeeded by their material counterparts) in 'Contemporary Economic Stagnation', pp. 115ff.

45 That no such Hegelian *Weltgeist* is at work in Arrighi's architectonic is clear from his insistence that 'sustained financial expansions materialize only when the enhanced liquidity preference of capitalist agencies is matched by adequate "demand" conditions'. On this, see 'Financial Expansions', p. 156. For Arrighi these 'demand' conditions arise only when there is interstate competition for mobile capital. The gist of my position however is that the current regime of accumulation is one that makes financial expansion possible without the promptings of interstate competition (a notion Arrighi gets from Weber) since (a) the overwhelming majority of states are in no position structurally to join this competition even at the most rudimentary level; and (b) the new kinds of capital come in a bewilderingly different number of forms (which are often hybridized) and move at such velocities that states cannot 'compete' for them in the old ways. Even the World Bank, for all its enthusiasm in fostering what it takes to be competitive trade and markets, can do no more than enjoin lower-income countries who are anxious to attract such capital to 'keep exchange rates favorable' and have 'sound macroeconomic fundamentals'. Though well-meant, such prefectural advice is simply gratuitous, and akin to the injunction that the pupils should 'give it a go' when competing in the school three-legged race. But the World Bank's vapidity in this context is profoundly symptomatic: there is virtually nothing that most states can do at present to create 'adequate "demand" conditions' for mobile capital. And yet this is the era of a prodigious expansion of financial capital....

46 Arrighi considers roughly similar scenarios in his 'Epilogue' to *The Long Twentieth Century* when he outlines three possible outcomes that may transpire in the event of a supersession of the US regime of accumulation (pp. 354-5). First, the US may use its military and political power to retain the surplus capital that would otherwise go to a new Centre of accumulation, in which case it would become 'a truly global world empire'. Second, East Asian capital may supersede the American regime, but since the new regime would not have the military and global political power of its predecessor, 'the underlying layer of the market economy would revert to some kind of anarchic order'. Third, capitalist history may be terminated by the growing violence that its various orders have spawned in the last six hundred years. The argument broached in the final part of this paper poses an alternative to these three scenarios. It maintains that a polynucleated, multi-spatial regime of global capitalist accumulation now prevails, one premised on different and sometimes quite radical degrees of separation between Marx's two primary forms of capital, namely, productive capital and finance (or financial) capital. The term 'finance capital' does not however occur in Marx's *oeuvre*; but chapter 27 of Volume III of *Capital* ('The Role of Credit in Capitalist Production') was the basis of the fuller elaboration of the concept in Hilferding's *Finanzkapital*. Marx though did suggest that there were two ways of extending the means of credit available to industrial capital that correspond in brief outline to Hilferding's two notions of productive capital and finance capital.

47 There is a problem in mapping the distinctions made in this paper on to Arrighi's distinction between the 'material phase' *M->C* and the 'financial phase' *C->M1* of a systemic cycle of accumulation. Pollin suggest that Arrighi's renditions of Marx's formulas are problematic because they 'obscure the logic operating in both phases', viz.,

that more money (profits) must ensue at the end of each of these processes. This may be so. In this paper, however, the distinction between 'productive capital' and 'financial capital' refers not so much to two alternating phases as to two different spatial configurations or logics for the organization of capital. Consequently, 'productive capital' and 'financial capital' do not map easily on to (Arrighi's) *M->C* and *C->M1* respectively, and I use 'productive capital' and 'financial capital' rather than his formulas in giving my account.

48 Eric Helleiner, 'The world of money: The political economy of international capital mobility', *Policy Sciences* 27(1994), p. 295. The volume of transactions on foreign exchange markets more than quadrupled between 1986 and 1992, and the daily total reported gross turnover rose from $932 billion in April 1989 to $1,354 billion in April 1992, a rise of 35%. For these figures, see Barry Eichengreen, *International Monetary Arrangements for the 21st Centur*y, Washington DC 1994, p. 61. Eichengreen also notes that the volume of net daily foreign exchange transactions now exceeds the total official reserves of all IMF member countries combined (p. 64). The IMF had 178 member nations by December 1993 (Eichengreen's time of writing).

49 In what follows I adhere closely to the overviews presented in Randall D. Germain, *The International Organization of Credit: States and Finance in the World-Economy*, Cambridge 1997, Michael C. Webb, *The Political Economy of Policy Coordination: International Adjustment Since 1945*, Ithaca 1995, and Adam Harmes, 'Institutional investors and the reproduction of neoliberalism', *Review of International Political Economy* 5(1998), pp. 92- 121. Harmes is especially good on the shifts that have taken place in investment allocation criteria with the emergence of the new financial markets.

50 Germain, p. 136.

51 Even those who write about international financial markets from a neoliberal perspective believe that there is a problem today with inadequately supervised markets. See for instance Ethan B. Kapstein, *Governing the Global Economy: International Finance and the State*, Cambridge MA 1994, p. 183.

52 Here it is important to note that the rise of instability is not necessarily to be equated with a scaling-down of international coordination. As Michael Webb points out, if anything there has been more coordination in the international economy since they 1970s, though it has not managed to provide levels of stability previously reached. See *The Political Economy of Policy Coordination*, pp. 252ff.

53 There is a good account of this development in Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*, Ithaca 1994, which stresses the preeminent role of the state in fostering the integration and deregulation of markets, and in Goodman and Pauly, 'The Obsolescence of Capital Controls?', pp. 50-82, who use a more dialectical approach which sees government policy leading to increased integration and mobility, and this new situation then leading private agents to press for even more deregulation.

54 As Webb puts it, 'governments have preferred to take their chances with unpredictable burdens imposed by private markets responding to national policy differences, rather than coordinate in order to reduce the likelihood and magnitude of future international market pressures' (pp. 259-60).

55 On this, see Germain, p. 161.

56 The importance of path dependency is recognized in Pollin, 'Contemporary Economic Stagnation', p. 117.

57 Pollin, 'Contemporary Economic Stagnation', p. 116. This question is posed because it is important for Arrighi and Pollin, though, as will be seen, it is not necessary for us to answer it if we think of the relation between financial capital and productive capital in terms other than those of alternation or succession.

58 Henwood, p. 183. The situation since 1989 has been very similar. To quote Henwood again: 'In 1991, finance, insurance, and real estate, collectively nicknamed "FIRE", surpassed manufacturing's contribution to GDP, and widened their lead in 1992 and 1993; as recently as 1985, FIRE was 15% smaller. In 1993, manufacturing accounted for $1.1 trillion of output, and finance for $1.2 trillion. Gross investment was $882 billion--meaning finance 'produced' 34% more than the savings it theoretically channeled into investment' (p. 76).

59 *The Long Twentieth Century*, p. 348.

60 On American Airlines see Harmes, 'Institutional investors', p. 112; and for Fannie Mae and Freddie Mac, see Henwood, p. 91. Henwood's book is a remarkable source of information for anyone interested in the myriad new and different ways in which the current capital recycling mechanism now works.

61 On this see World Bank, *Managing Capital Flows in East Asia*, Washington DC 1995, pp. 7- 8.

62 These details are discussed in my unpublished paper 'The East Asian Economic Crisis'.

63 See *The Long Twentieth Century*, pp. 325-56, for Arrighi's assessment of East Asia's economic advance, made of course prior to the 1997 collapse of the region's economies. My claims here, and the accompanying critique of Arrighi, will need to be revised once a clearer sense is had of the less-immediately visible effects of the 1997 East Asian crash. Arrighi is right to emphasize the importance of 'cheap-labour seeking investment' in promoting regional growth, but account also needs to be taken of the path-dependent structural sensitivity of the industrial policies of the Southeast Asian governments to what was happening in Northeast Asia in the mid-1980s. On this structural sensitivity, see Jomo, K.S., et al., *Southeast Asia's Misunderstood Miracle: Industrial Policy and*

Economic Development in Thailand, Malaysia, and Indonesia, Boulder and Oxford, 1997, p. 160.

64 I take the term 'investor aristocracy' from Harmes, 'Institutional investors', p. 114, where it is used to designate those workers who may have belonged to a 'labour aristocracy' in the days of the Keynesian/New Deal economic dispensation, but who (in considerably smaller numbers) are now transformed into investors by the succeeding phase of accumulation. It is important to note that an effective state-formation is a prerequisite for the US's successful channelling into the fiscal system of tax revenues harvested from stock-exchange speculation. The role of the state as the forcing-house *par excellence* for securing tax revenues has been stressed by Max Weber and Michael Mann. For Mann, see 'The Autonomous Power of the State: Its Origins, Mechanisms, and Results', in John A. Hall, ed., *States in History*, Oxford 1986, pp. 109-36. See also John M. Hobson, *The wealth of states: A comparative sociology of international economic and political change*, Cambridge 1997, especially pp. 252-3. Marxists need to engage more strenuously with this neo-Weberian approach to the state-system if they are to analyze satisfactorily the ensemble of substructures that make up the FCSR.

65 See Ajit Singh, 'The Actual Crisis of the 1980s', p. 110.

66 See especially Samir Amin, *Delinking: Towards a Polycentric World*, London 1990, and Carlos Diaz-Alejandro, 'Delinking North and South: Unshackled or Unhinged?', in A. Velasco, ed., *Trade, Development and the World Economy: Selected Essays of Carlos F. Diaz-Alejandro*, Oxford 1988, pp. 72-121.

67 Lance Taylor, 'Economic Openness: Problems to the Century's End', in Tariq Banuri, ed., *Economic Liberalization: No Panacea (The Experiences of Latin America and Asia)*, Oxford 1991, pp. 91-147.

68 In 'The Rocky Road to Reform: Trade, Industrial, Financial and Agricultural Strategies', in A. de Janvry, S. Radwan, E. Sadoulet and E. Thorbecke, eds., *State, Market and Civil Organizations: New Theories, New Practices and their Implications for Rural Development*, Basingstoke 1995, pp. 86-111, Taylor has analyzed several results from the adoption of the prescriptions enshrined in Washington Consensus, and concludes that they have only been barely successful as a reform package, not infrequently providing a combination of 'high interest rates, stagflation, deregulation and financial crashes'. This leads him to suggest that LDCs would be better-off not underwriting capital markets and choosing instead state-provided credit channelled through development banks or made available directly by the government. Taylor concludes that 'the Bretton Woods institutions... remain impervious to the fact that the invisible hand plus a minimal government (especially in its fiscal, regulatory and investment roles) do *not* necessarily act together to support sustainable economic growth' (p. 96). Emphasis Taylor's.