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## Hobson's voice: American internationalism, Asian development, and global macroeconomic imbalances

***Abstract:** John Hobson's theory of Imperialism has remarkable relevance for contemporary relations between the United States and Asia/Europe. A reconstruction of his argument shows that whereas the Bretton Woods period presents Hobson's preferred non-imperial outcome, this outcome was not stable. Instead, the dynamics that brought about Imperialism in the first place eroded Bretton Woods and returned us to Hobson's situation of "informal imperialism." Whereas Hobson focused on Imperial underconsumption and the United States is clearly overconsumptionist, these macroeconomic imbalances have the same roots in imperial structures of power and the same deleterious consequences for political and economic stability.*

***Key words:** capital export, hegemony, Hobson, Imperialism.*

Does John Hobson's century-old analysis of imperialism have any analytic relevance for the current structure of U.S.–Asian economic and political relations (Hobson, 1938)? Superficially, it appears not. After all, Hobson argued that underconsumption was the taproot of imperialism, and conventional wisdom sees the overconsumptionism of individual Americans as the taproot of the U.S. economy's perpetual balance of payments deficits and thus status as a net debtor to the rest of the world. Asia holds much of this debt as foreign exchange reserves parked in U.S. Treasury instruments. On this reading of Hobson we might think that underconsumptionist Asia is imperializing the United States.

Perhaps a slightly stronger superficial case supporting Hobson could be made on political grounds? Politically, American hegemony is relatively uncontested in both senses—there are neither grounds for arguing

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against its existence, nor any *serious* challengers, notwithstanding the axis of evil, turtles in Seattle, terrorists in general, and Islamic fundamentalism in particular. Over 200,000 American troops remain stationed in 144 countries. But this superficial reading is grossly inconsistent with Hobson's original argument. Hobson put underconsumption on the left-hand side of the causal arrow leading to an international political presence. It is bad form to argue backward from the presence of an effect to its assumed cause without certainty about the absence of equifinality. The U.S. overseas presence could simply reflect pure security considerations emanating from World War II's remaining territorial and sovereignty issues. Of 200,000 overseas personnel, 175,000 of them are based in five countries: Germany, Japan, Korea, Britain, and Italy. Whereas these deployments are significant, they do not constitute anything near the direct political control Britain exercised over its formal empire with a far smaller presence (fewer than 100,000 Britons in toto, public and private, in India, for example).

But these arguments advance straw versions of Hobson's argument to push one or the other conclusion. I think a more powerful elaboration of the causes, structures, and contradictions of American hegemony in Asia can be based on Hobson's original argument. As Giovanni Arrighi argued in *The Geometry of Imperialism*, Hobson typologized four different kinds of imperialism (Arrighi, 1978). Distinct causal logics animated each imperialism and generated internal contradictions, leading to the next phase of imperialism. In Hobson's dialectic, dominant economies construct successive forms of imperial control only to have them collapse as endogenously generated contradictions emerge. The final form, full-blown Imperialism, emerges from the kind of politically created macroeconomic imbalances that currently lie at the heart of American hegemony.

Whereas Arrighi's deconstruction and reconstruction of Hobson are fairly accurate, he misapplies Hobson's analytic categories to the period after World War II. Arrighi essentially sees Hobson's *Imperialism* as a theory of *international* political economy. But Hobson should be read as an argument that used anticipations of Keynesian and Kaleckian arguments to show how the domestic and international political economies interacted. As Gregory Nowell has argued, Hobson is primarily a political theory of imperialism and only secondarily an economic theory (Nowell, 1999).

Arrighi's analysis also distinguishes unnecessarily between financial and industrial capital. He assumes an equivalence between multinational capital and industrial or productive capital, and proposes that productive

multinational capital has displaced financial capital as the predominant international flow. Arrighi makes this distinction to argue that Hobson's dynamics changed after 1945 and that Bretton Woods constituted a period of informal imperialism. The finance versus industry distinction certainly is valid and useful in many contexts. But the distinction is not necessary for Hobson's analysis—Hobson's core causal claim is that the concentration of capital leads first to underconsumption and second to export of capital. The *specific* form that capital export takes matters somewhat, because Hobson saw industrial capital as inherently less imperialistic. But this distinction is not essential to Hobson's argument.

We can thus see Hobson's preferred policy option of relatively self-contained national economies characterized by full employment and full consumption expressed in the Bretton Woods period, whereas Hobson's category "informal empire" accurately captures the post-Bretton Woods period. Empirically, it matters that substantial exports of financial capital reemerged in the late 1970s and grew rapidly thereafter. These exports signaled the reemergence of Hobson's informal imperialism and of the tendency for this to pass into full-blown *Imperialism*.

Finally, I will argue that Hobson's analytic structures can encompass the apparently anomalous situation in which the dominant economic power is an "overconsumptionist" capital importer, whereas subordinated economies in Asia and Europe appear to be "underconsumptionist" capital exporters. Hobson's two core concerns were the political and economic consequences of politically created macroeconomic imbalances, and the rising tide of nationalism he observed in the nineteenth century. The fact that those macroeconomic imbalances currently run in a direction opposite to those he observed in the nineteenth century should not necessarily invalidate his argument. However, I wish to be clear that by making this argument I am turning Hobson, if not on his head, certainly 180 degrees. I think I can do this and still be true to Hobson's intentions, particularly because Hobson's predicted outcomes—rising nationalism, militarism, and increased state power—still emerge from this analysis.

The argument in brief is that just as in the nineteenth century, when the periphery's short-term deposits in London underpinned long-term British lending back to the periphery, late twentieth-century peripheral holdings of liquid U.S. assets underpins continued investment by U.S. firms in real productive capacity. This creates an asymmetrical situation: the structure of capital flows sustains U.S. growth regardless of which economy is growing.

### Hobson imperialized

Arrighi extracts a full-fledged dialectical and causal argument from Hobson's somewhat discursive text that is, in most respects, superior to that of Lenin, even if its basic causal logic rests on the concentration of capital—a form of intraclass conflict—rather than interclass conflict. Arrighi argues that Hobson lays out four characteristic forms of imperialism. (For discursive purposes it is important to note here that imperialism is a general category encompassing the Imperialism tout court that Hobson castigated. I will denote Hobson's Imperialism with a an uppercase "I" and use imperialism—lowercase "i"—to denote all externalizations of nation or state.)

Each of Hobson's four forms possesses its own distinct internal logic that derives from the relative weight of nationalism or state power that the dominant nation-state projects into the international arena. Each creates its own internal contradictions that lead—unfortunately, from a methodological point of view, quite ineluctably—to the next form. Figure 1 will help make sense of the flows in Arrighi's argument. Whereas the discussion below is somewhat abstract, it is necessary to establish the meaning of terms I will use as well as the dynamics that drive shifts to successive forms of imperialism.

#### *Hobson's four imperialisms*

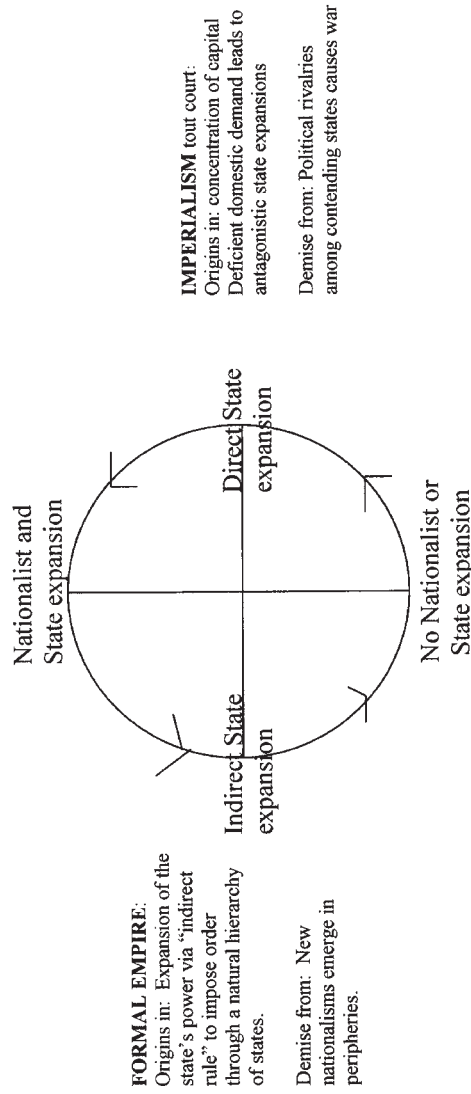
##### Colonialism

Colonialism involves a simultaneous expansion of the state and nation. New England approximates the ideal type. The state violently implanted its own nationals in new colonies, eliminated (as nearly as possible) local inhabitants, and thus reproduced its own society offshore. Colonization thus involved exclusivist migrations of people and capital. Entry by other societies' nationals in any significant numbers would defeat the purpose of territorial aggrandizement and expansion.

Colonization contained a self-limiting dynamic. Ideally, the state carried the nation outward, replacing a permanent metropolitan presence with the colonial society. But the more demographically and economically successful colonies were, the greater the likelihood that they would develop their own distinct national identities. These new nationalisms conflicted with the metropolitan state's and produced demands for local control for local purposes.

Arrighi argues that historically, colonial rebellions in the Americas caused a shift in British policy leading to formal empire, centered on the Indian subcontinent, as well as preemptive and selective liberalization

**COLONIALISM:**  
Origins in: expansion of the nation via exclusivist migrations.  
Demise from: New nationalisms emerge in colonies



**Figure 1** Giovanni Arrighi's reconstruction of Hobson's argument

of relations with the remaining settler colonies in order to preserve British authority over military and foreign policy issues. Arghiri Emmanuel's analysis of the conflicts over decolonization after World War II presents a similar dynamic; Emmanuel argues that settlers constituted a greater threat to metropolitan security and investments than did indigenous peoples' nationalisms (Emmanuel, 1972).

#### Formal imperialism

Formal Imperialism involved expansion of the state's political power without a simultaneous expansion of the nation. Instead, subordinated nationalities were absorbed into the dominant culture, producing at its extreme a *pax romana* or *sinica* enforced through indirect rule. Formal Imperialism in principle did not involve hostility toward other states, insofar as it aimed to subordinate all states into a natural and ordered hierarchy. This is inherently inegalitarian—weaker states accept their place and external direction—but not inherently bellicose. The absence of anarchy and the dominance of one state prevent interstate war.

Of all of Hobson's forms, this is clearly the most "ideal-typical" in the sense that it is least represented in modernity. Certainly the European powers strove toward formal empire, and the British perhaps achieved it during the quarter century leading up to the Crimean War. But none attained the kind of domination characterizing the great historical empires. Britain's global domination rested on a very thin base of direct control outside of the Indian subcontinent. Moreover, one limit on the European empires was their inability to generate the kind of cultural and ideological control that the older ones did; as *nation*-states they inherently could not generate universalistic cultural appeals (Anderson, 1991; Mann, 1986).<sup>1</sup> Unlike older empires, the European ones by and large did not permit horizontal or vertical mobility within the state apparatus for individuals from subordinated areas, so there was a continued reliance on metropolitan nationals to staff administrative heights in subordinated areas.

This specific imperfection of efforts at formal empire led to its demise, as the permanence of the color bar provoked new nationalist reactions among subordinated locals, rather than among colonists. Again, Arrighi makes the historical argument that just as colonialists' revolts led to an assertion of formal imperial control, indigenous peoples' re-

<sup>1</sup> Mann (1986) discusses how social incorporation and co-optation of local elites stabilized imperial control in a period in which physical technologies for long-distance control were quite fragile.

volts against formal control led to imperial retreat into indirect forms of control.

#### Informal imperialism or internationalism

Informal Imperialism, or as Hobson termed it, Internationalism, involved no expansion of state power into the international arena and no interstate political or economic conflict. Instead, conflict occurred between firms and individuals, mediated through markets. In contrast to Formal Empire's imposed *political* order and Colonialism's morally or sentimentally generated social order, markets generated an impersonal and at least formally egalitarian order in Informal Empire. Nonexclusivist migration could occur—though historically there was still considerable local opposition to in-migration of darker people, and it typically occurred only in relatively “empty” areas (Schwartz, 2000, ch. 5).

Unlike the two prior forms, informal empire did not automatically generate new nationalisms to undermine itself. Instead, instability arose from the market economy's inherently uneven development. The larger international division of labor in informal imperialism permitted the concentration of capital that constituted Hobson's “taproot” of Imperialism. Giant firms and cartels emerged to serve the world market. Given Britain's existing unequal distribution of income, this growing concentration of capital diminished profit opportunities in the British domestic market, and reinforced the impulse to invest overseas. But this impulse could only be realized if more countries were brought into the world market, or if other countries' firms could be squeezed out of their markets. Thus full-blown Imperialism sprang not solely from the market, but from the combination of the market and the specific set of political conditions, enforcing an unequal distribution of income in firms' primary domestic market. Interstate competition then arose from the political use of state power in pursuit of economic goals.<sup>2</sup>

#### Imperialism

Imperialism was a situation of interstate competition in which states expanded their power externally and internally in pursuit of control over existing and new markets in an anarchic environment. Unlike Colonialism, it did not create new nations. Nor was it specifically congruent with

<sup>2</sup> Hobson was ambivalent about this process. *Imperialism* (1938) provides contradictory justifications for incorporating backward areas into the world market: incorporation for progressive reasons like creating order from chaos, preventing privateering by adventurers, and uplifting the natives was good, but imperial incorporation was bad.

nationalism, because it saw an extension of state control beyond the nation's natural boundaries that required the extension of despotic control overseas. Despotism abroad had as its natural counterpart despotism at home, as military spending and militarism at home increased to support Imperial expansions like the Boer War. So, whereas Imperialism had economic roots, it was first and foremost a political phenomenon in which a politically maintained maldistribution of income generated the coercive forces needed to reinforce that distribution.

Hobson's Imperialism generated self-reinforcing economic and political dynamics. Concentration of capital diminished domestic investment opportunities and spurred further investment overseas that in turn concentrated capital even more. Overseas investment generated a backflow of cheap imports that drove domestic working-class wages down, increasing the relative attractiveness of overseas investment. Lower wages led to rising social unrest and thus further militarization of society. Militarization reinforced the ability of a clique of narrow sectoral interests to put their particular goods ahead of the national good. Lower wages also reinforced the temptation for domestic holders of capital to become parasitic rentiers living off their overseas investments, and to press for policies that secured their overseas rents.

Imperialist competition between groups of concentrated capitals seeking exclusive domination over territorial segments of the world market culminated in a generalized war. Hobson's prediction of a generalized war and the collapse of free trade did come to pass. However, Hobson did not make any predictions about what would occur after Imperialism ran its course.

Arrighi attempts to do so by arguing for a distinct U.S. imperial cycle overlapping Britain's. The U.S. cycle started with Colonialism on a continental scale, passed briefly into Formal Empire at the end of the nineteenth century, shifted to Informal Empire during the Bretton Woods period, and then culminated in Imperialism in the 1970s. Arrighi's nominees for the other contending Imperial powers in the 1970s are the usual suspects: Europe, Japan, and the Soviet Union. He also erects a new and different causal mechanism in the operations of Multinational Firms. Whereas it is true that MNCs (multinational corporations) make a difference, his categorizations are at best right for the wrong reason, and possibly entirely wrong. Here's why.

#### *Hobson and the present*

The beauty of Hobson's analytic framework is the presentation of a set of distinguishable situations of imperialism whose internal dynamics logi-

cally lead to their dissolution and the emergence of a new imperialist situation. Hobson also articulated a state of rest from which he thought the imperialist cycle would not emerge in his discussions about remedies for the dual pressures toward state and nationalist expansion, and thus Imperialism. Bretton Woods constituted this state of rest, but proved unstable.

Hobson put forward two visions of plausible and mutually compatible stability that remedied Imperialism's political and economic taproots. The first was a EU-like federation of civilized nations (Hobson, 1938, pp. 168–170). This would prevent interstate war by regulating trade and political relations among nations—though it anticipates Kautski's ultra-imperialism. It would substitute cultural cohesion and rational negotiation for the political domination that characterized prior formal empires. Whether or not the European Union, on its own terms, approximates this situation, it certainly also bears some resemblance to the Bretton Woods impulse toward formal institutional resolution of international economic disputes.

The second stable situation required a shift in the domestic distribution of income toward workers. This would create new and profitable opportunities for investment at home, deter riskier investments abroad, and obviate the need for imperial adventures and the militarization of society. Hobson used a primitive version of Keynes's multiplier to argue that rising domestic demand would create a virtuous cycle of domestically oriented investment and demand. Increased domestic demand would reduce antagonistic international competition for exclusive control over markets. In short, a Keynesian manipulation of the economy that shifted purchasing power from rentiers toward the working class would sever the taproot of Imperialism.

The Bretton Woods period certainly contains aspects of both visions of a stable, non-imperialist situation. The U.S. conflict with the Soviet Union—though less so with China—was clearly not about markets, even if we concede that rising tensions served the interests of groups in the United States that sought to maintain U.S. access to other world markets. A plausible case can be made for the conflict on security grounds alone, understanding security to encompass the maintenance of a domestic standard of living consistent with domestic political order.<sup>3</sup> This is not what Hobson meant by Imperialism.

<sup>3</sup> See Shoup and Minter (1977) for an argument that elites mixed narrow (military) and broad (domestic economic security) concerns in the formulation of policy before, during, and after World War II. On the influence of economic concerns in the prosecution of the war and after, see Christopher Thorne (1978).

In contrast, the Bretton Woods period was characterized by a dramatic shift in both wealth and income away from the top of the income/wealth spectrum. The share of income accruing to the top 10 percent of earners in the United States and France fell from roughly 42 percent (1917–1940) to about 32 percent (1950–1979), and then started to rise again in the United States but not France (Piketty and Saez, 2001). Simultaneously, the share of capital income in all personal income in the United States fell from roughly 21 percent in the 1920s to about 13 percent (1950–1979).

Second, as the classic arguments about fordism maintain, this income shift enabled exactly the positive dynamic Hobson sought: rapid growth largely fueled by rising domestic demand. Rising output certainly permitted rising productivity through rationalization and economies of scale. But Imperialism did not emerge from this concentration because of political mechanisms that redistributed productivity gains to workers, allowing rising domestic demand to accommodate rising output. Without this different political situation, rising output would probably have spurred the processes Hobson decried. Instead, the developed economies saw the intensive growth, full or near full employment, and uplifting of the working class that Hobson sought.

It could be argued—and Arrighi’s analysis is certainly based on this argument—that this period also saw an outflow of U.S. “productive” capital to Europe and elsewhere, and that by the 1970s there was a steady flow of portfolio/financial capital. Nonetheless, in quantitative and qualitative terms most of these flows did not resemble those Hobson discussed in the nineteenth century. First, they were considerably smaller in relation to gross domestic product (GDP). Peak British capital exports amounted to 10 percent of the GDP and thus constituted up to 50 percent of fixed investment in typical receiving countries (Australia, Canada, Argentina). But peak U.S. outflows (and for that matter average Japanese outflows in the 1980s) barely broached 2 percent of the GDP, and on the other side, only constituted 25 percent of fixed capital formation in a few countries like South Korea, and there only in the 1960s and 1970s, when the economy was considerably smaller than it is today.

Second, qualitatively, U.S. MNCs invested in Europe precisely because they could not access European markets through normal trade processes. The sharp drop in the trade share of the GDP that occurred subsequent to the Depression, the persistence of capital and currency controls, and the presence of substantial nontariff barriers meant that if U.S. firms wanted a piece of the action in Europe, they had to invest there. But this investment thus occurred precisely in order to take advantage of domestic growth, and helped maintain the positive Keynesian

dynamic that Hobson preferred. While firms fought for market share overseas, they did so in ways that boosted workers' incomes and domestic demand rather than suppressing those incomes.

Unfortunately, although Hobson was right that this was a far better state of affairs than the ones he observed, he was too sanguine about its long-term stability. And here, finally, is where Asia begins to enter our story. For just as Hobson's four imperialisms contained internal contradictions that led (perhaps too inexorably) to their collapse and replacement by a new form, Hobson's preferred pacific state of affairs also contained an internal contradiction that led to its collapse and transformation into a situation of Informal Imperialism. As Michal Kalecki observed, but Keynes did not, full employment had contradictory political and economic consequences. Kalecki argued that full employment was not a *technical* issue, but rather a *political* one:

The assumption that a government will maintain full employment in a capitalist economy if it only knows how to do it is fallacious. In this connection, the misgivings of big business about the maintenance of full employment by government spending are of paramount importance. (Kalecki, 1971, p. 138)

Keynes was right that on narrow economic grounds the sustained high level of demand that full employment generated would lead to rapid and stable growth. But Kalecki argued that full employment also had political consequences: full employment led to rising wages and a rising wage share for the working class. In a perfectly closed economy, this might lead initially to a shift in the distribution of profits away from rentiers and toward "productive" capitalists and workers as slow but significant levels of inflation eroded fixed interest debt instruments, as Keynes desired, extinguished the rentiers. But what would happen once this shift had occurred, and rentiers were either extinguished or marginalized by creeping inflation? Then, rising wages would begin to eat into the profits of productive capital too, as tight labor markets fueled labor militancy and generated the kinds of massive strikes seen in 1967–1972. At that point, according to Kalecki, capitalists in a closed economy would go on an investment strike.

But what if the economy were not completely closed? What if productive capital had an exit option, as American capitalists did with respect to Asia and, to a lesser extent, Latin America? Then Hobson's situations of imperialism might reemerge, driven once more by the internal contradictions of the prior situation. Given that new nations and nationalism had emerged and in some cases fully matured in the periphery, the Colo-

nial and Formal Imperial options were written out of history. But Informal Imperialism and Imperialism tout court remained plausible options. And this is indeed what happened when U.S. manufacturing capital fled on a large scale to Asia, recreating a situation in the 1970s and early 1980s that mostly partook of Informal Imperialism, began shifting in the late 1980s and early 1990s toward Imperialism tout court as the United States and Japan struggled for economic dominance of Asia, and then shifted back to Informal Imperialism with the waning of the Japanese challenge to U.S. hegemony in Asia.

### **America and Asia**

U.S. policy in Asia has pursued the construction and maintenance of an informal empire characterized by selective military engagement, occupation of strategic choke points (both geographically and institutionally), and the integration of Asian economies into circuits of capital dominated by U.S. firms. This policy was pursued hesitantly before Nixon's 1971 opening to China, and strongly thereafter, even if it has not always been successful. Two realities limited U.S. ambitions in the period before 1971. First, U.S. business had few compelling reasons to pursue a strong policy of integration. Second, open war in Vietnam generated equally open Chinese hostility to a U.S.-dominated Pacific order, impeding construction of an informal empire. After 1971, both conditions changed, impelling and permitting greater integration of Asian economies with the U.S. economy and the containment of present and potential regional powers.

This integration has seen an enormous export of long-term capital from the United States, which in turn has produced an enormous export of short-term capital back to the United States from Asia. This structure of lending parallels existed in Britain's period of Informal Imperialism. Here is where it becomes important to distinguish between financial and productive (or multinational) capital, but in a way that is different from Arrighi's.

In the nineteenth century, Britain financed its long-term global investments by recycling short-term capital that banks operating in the periphery parked in London. Since virtually all international transactions (and some peripheral "domestic" transactions as well) cleared in London, most non-British banks kept large, low-interest, short-term deposits in London banks. British banks were able to recycle this deposit base as higher interest long-term lending back to the periphery. Whereas this exposed them to the risks inherent in a maturity mismatch, it also allowed them to

profit by arbitraging between the two interest rates. The Bank of England alleviated the maturity mismatch by aggressively raising short-term interest rates when capital flowed out of London.

In much the same way, the continued expansion of the U.S. economy has been financed by Asian and European passive holdings of short-term financial assets. By permitting U.S. consumers to continue to buy, Asian states have validated the domestic and offshore investments of U.S. MNCs. In turn, this sustained profitability has permitted the shares of those firms to rise. This has two positive effects. First, it creates yet more purchasing power in the U.S. domestic market, sustaining expansion there. Second, it creates more fictitious capital, permitting U.S. firms to continue to invest at home and abroad with a low cost of capital. At the same time, by parking their trade surpluses in U.S. financial instruments, Asian (and European) economies constrict their own local demand, making them even more reliant on exports to the U.S. economy, and maintaining the importance of U.S. and Japanese MNCs in their economies. This is the true measure of U.S. control: the structure of capital flows sustains U.S. growth regardless of which economy is growing.

On the production side, the collision of U.S. economic and political choices with nationalist pursuit of economic growth in Asia has largely structured the trajectory of Asian economic growth—possibly excepting China's. Domestic U.S. economic struggles, encompassing a flight of capital from a full employment situation, and the state's sponsorship of new technologies and areas of economic activity have shaped Asian growth on both the supply and demand side. Simultaneously, Asian states have consistently—if not always “correctly”—used state control over finance and foreign exchange to boost investment to historically unprecedented levels, in the East Asian Economic Model (EAEM). The only challenge to U.S. hegemony in Asia came from Japanese efforts to displace U.S. economic dominance by generalizing its version of the EAEM to the rest of Asia.

#### *Control over physical and institutional choke points*

Like Britain in the nineteenth century, the U.S. state has consistently sought strategic dominance in all important geographic arenas through control over the “keys that lock up the world” and the creation of regional balances of power. In the nineteenth century these keys were purely geographical locations like Gibraltar or Aden. In the twentieth century they also comprised control over key economic flows and selected command and control levers within the multilateral organizations that nominally regulate the use of military force.

Military bases in Okinawa, Guam, Diego Garcia, South Korea, and, via basing rights, Darwin and Singapore convey physical control over the flow of oil and maritime trade in Asia, as well as containing potential enemies. Even before World War II, U.S. policy-makers sought to control oil as a way of controlling potential adversaries, and this policy continues.

More subtle forms of control emanate from U.S. control of strategic military assets and command structures within institutional settings. The integration of European and Korean militaries into regional command structures impedes independent action by these forces. The North Atlantic Treaty Organization's (NATO) division of labor leaves European militaries barely able to fight a war of maneuver within Europe with U.S. support, and without U.S. logistical and command support they can only muster a brigade-sized unit for intervention outside Europe. The Japanese and Korean militaries lack the experience and capability to fight outside their borders. Finally, the United States has cultivated regional power balances that prevent existing and emergent regional powers from becoming global competitors. All of this is consistent with Informal Imperialism. Real threats remain, but they also remain manageable.

#### *New leading sectors and export demand*

American firms and state policy also structured the way Asian economies grew in Asia ex-Japan. U.S. firms' desires to move labor-intensive production offshore dovetailed with U.S. tariff policies that levied duty only on value added overseas for re-imports, and with U.S. foreign policy encouraging liberalization of Asian economies and their reintegration into Japanese and U.S. commodity chains. Except for China and Japan, this meant that Asian economies developed with stunted domestic markets and hypertrophied export sectors. Asian states' mercantilist policies reinforced this orientation.

The emergence of both a new leading sector—electronics—and a new production model for the old mass production, assembly-line leading sectors—Japanese just-in-time production—pushed U.S. firms overseas in search of cheaper labor than they could find at home. U.S.-style assembly-line production and its associated unions of semiskilled workers created very tight labor markets in the United States, which both pushed up wages and compressed wage structures through the late 1960s. Labor-intensive industries such as garment assembly and textiles fled to tailor-made export-processing zones in Asia in search of cheap female labor.

The newly emerging electronics industry similarly found itself unable to compete for low-skill assembly workers. It also shifted the labor-in-

tensive portions of its commodity chain to low-wage production zones in Mexico and Asia. Although this shift eroded working-class power in the United States, workers retained a huge reservoir of purchasing power that prevented the emergence of the “underconsumptionist” dynamic Hobson sketched out. Instead, real wages remained essentially flat from 1980 to 2000, permitting valorization of overseas investments in basic goods.

*Asian states, the economy, and nationalism*

U.S. firms' pursuit of low wages interacted with Asian variations on the Japanese EAEM to spread new industries across Asia. Asian states deliberately suppressed domestic demand and used the financial system to channel capital to industry. Deliberate use of capital controls to maintain low interest rates combined with meager public pensions to induce very high levels of private savings. By the mid-1990s, Asian governments could commit a huge share of output to fixed capital formation: 45 percent of the GDP in Malaysia and Thailand; 36 percent in Singapore, Indonesia, and Korea. The state used overt and covert forms of protection to steer local business groups' and MNCs' investment into targeted sectors.

Putting aside the question of whether this investment was productive, it certainly led to increased exports as output outstripped relatively damp domestic demand. Given a constrained domestic market, overinvestment created overcapacity, which naturally poured into world markets. These export surges flowed into the U.S. market, which tended to be *relatively* open to imports (as compared with Japan or Europe) and relatively faster growing from the 1980s on. Because the local state sopped up domestic savings and controlled the exchange rate against the dollar, trade surpluses produced an accumulation of dollars without causing a corresponding rise in the value of local currency against the dollar or a rise in local imports. Instead, Asian states sterilized their rising hoards of dollars by turning them into U.S. Treasury bonds. By November 2001 the Asian economies had huge holdings of U.S. Treasury and other passive foreign assets: Japan, \$404 billion; China, \$196 billion; Taiwan, \$122 billion; Hong Kong, \$111 billion; Korea, \$103 billion; Singapore, \$77 billion (Hong Kong Monetary Authority, 2002). These holdings represent unrealized domestic demand in these countries. If they were released into Asian domestic economies instead of being parked overseas, domestic consumption and imports would surge.

The local state reinforced control over local consumption by fairly strict control over labor unions and workers. Appeals to national pride, “Asian values” and a general sense that Asia's century had arrived were used to

gloss over substantial dislocation of peasant populations and worker unrest. These appeals justified the targeting of industrial sectors perceived as especially salient to the development process or especially important for establishing that an economy had arrived in the ranks of the developed economies. Everyone thus pursued textiles, toys, and household goods exports as an easy way to generate foreign exchange to pay for the capitalization of the more impressive automotive and electronics sectors. The relative success of the Japanese model, which involved the deliberate creation of overcapacity, legitimated these state activities despite pressure from U.S.-dominated policy institutions like the International Monetary Fund (IMF) and World Bank. Moreover, it was precisely Japan's efforts to export its model to Asia that created the few tendencies toward Imperialism tout court in Asia. The United States and Japan struggled to control the policy orientation of Asian states during the 1990s.

This incipient Imperialism underlay the 1997–1998 Asian financial crisis. U.S. insistence on unregulated international capital flows gave Southeast Asian states access to more capital than they could reasonably use for targeted investments. Instead, capital flowed into property speculation and excess manufacturing capacity. Asian fixed investment, net of that in Japan, went from 6 percent of total world investment in 1990 to 18 percent in 1996. One-quarter of this, roughly \$420 billion, came as foreign direct and portfolio investment. Where investment in Southeast Asia nearly tripled in those six years, investment in Japan and the United States grew only 40 percent and in Europe only 10 percent. Most of this money came from the relatively stagnant European (53 percent of bank lending) and Japanese (41 percent) economies, which nicely fits Hobson's original analysis of how cartelized capitalism forces capital offshore in pursuit of renewed profitability (OECD, 1998, p. 21).

Yet what about the obvious inversion of Hobson's argument with respect to Asian underconsumptionism and U.S. overconsumptionism? There are several reasons to think that Hobson's analysis of Informal Imperialism still accurately captures events here. First, the huge increase in Asian, and especially Chinese, production had exactly the effects that Hobson predicted—except they were largely felt by Asian workers, not U.S. workers. Or at least, not immediately.

Once encompass China with a network of railroads and steamer services, the size of the labour market to be tapped is so stupendous that it might well absorb in its development all the spare capital and business energy that the advanced European countries and the United States can supply for generation. Such an experiment may revolutionize the methods of Imperialism; the pressure on the working-class movements in politics

and industry in the West can be met by a flood of China goods, so as to keep down wages and compel [labor discipline]. (Hobson, 1938, p. 313)

The 1990s investment wave largely produced extensive growth in Asia and massive overcapacity in basic industries. Not only textiles, toys, and household goods turned into low-price commodities, but low-end electronics, cars, and car parts as well. Competition from China's inexhaustible supply of low-wage labor depressed terms of trade for all Asian economies except Singapore and Taiwan after 1990; overall terms of trade fell roughly 20 percent for all developing economies' manufactured exports from 1975 to 1995 (Wood, 1997, p. 51).

Second, Asia has become even more structurally reliant for growth on a narrow range of exports to the U.S. market. The long history of Asian development reveals a remarkably high level of intra-Asian exports in comparison to other developing regions. In 2000, for example, 38 percent of Asian (excluding Japan) exports went to other Asian economies. But external demand remains critical for growth. This apparent export market diversity masks a large dependence on the United States and the European Union for final consumption of exports, because much intra-Asian trade is made up of intermediate goods.

One classic example is the Seagate computer hard disk drive, which incorporates castings from Thailand, chips from Malaysia and Singapore, magnetic material from the United States, and is shipped from a variety of Southeast Asian ports. Ultimately, a disproportionate share of East Asian exports ends up as information technology (IT) hardware exports to the United States. In 2000, for example, Morgan Stanley estimated that 40 percent of exports from Asia ex-Japan were IT hardware exports to the United States. The proportion is higher for countries like Korea, Singapore, and Malaysia, for which more than one-half of all exports are IT exports to the United States; memory chips from one firm alone account for 4 percent of Korean exports by value (Roach, 2001). Because exports typically account for roughly one-half of the GDP in the smaller Asian economies, roughly one-quarter of the output of the smaller Asian economies is hostage to the economic fortune of one American economic sector.

Meanwhile, these countries lack any pricing power that might offset this reliance on the U.S. market. Whereas these exports demonstrate a kind of success, Asia's domination of electronics industry subsectors is also an enormous vulnerability. Overcapacity in electronics has caused prices of electronics to fall nearly 17 percent in U.S. dollar terms since 1997 (*Economist*, 2001). In effect, basic computer chips and other electronics (not to speak of beach toys and cheap lighting) have become the

modern economy's equivalent of the nineteenth century's cotton or wool: a basic, fairly undifferentiated input to developed country manufacturing, produced "overseas" by economies with a propensity to borrowing, boom, default, and turbulent politics.

Finally, it is important to remember that the structure of British imperial finance rested not just on exports of British capital, but also on imports of capital into Britain. Macroeconomically, Britain borrowed short-term, at extremely low interest rates, from its formal and informal empire. It then turned that money around and loaned it long-term, at higher interest rates, right back to that same empire. Britain benefited from this arbitrage, which could be sustained only as long as the sterling was the international reserve currency of choice and London was the preferred clearinghouse for international commerce and finance. Absent either condition, no one would choose to park money in London.

Similar dynamics underpin the macroeconomic imbalance linking the United States and Asia. Asian exporters' large dollar-denominated reserve holdings are a short-term loan to the United States. And, as in Britain, holders of capital in the United States benefit from being able to issue fixed income securities while investing the proceeds in higher-yielding equities and productive investments. In turn, capital inflows permit the United States to overconsume imports, just as Britain overconsumed imports in the nineteenth century. During the 1990s, foreign purchases of U.S. corporate bonds averaged \$173 billion and peaked at over \$500 billion in 2001. This helped drive down firms' borrowing costs. Foreign direct investment in the United States—mostly as acquisitions of existing firms and not the creation of new enterprises—amounted to over \$500 billion in the 1990s (Quinlan, 2002).

Differences do exist between each century's unsustainable international macroeconomic imbalance. First, the current one is taking place with working-class incomes high but falling—a legacy of Bretton Woods Keynesianism—whereas the nineteenth-century one took place with working-class incomes rising off of subsistence levels. This undoubtedly helped produce current account deficits sooner than in the nineteenth century. Offsetting this, the U.S. economy has been more innovative and dynamic than Victorian Britain's, making rapidly rising equity values more plausible to investors.

### Conclusion

What then can be said about Hobson's relevance 100 years later? I think a good case can be made that he remains startlingly relevant both in his

methodological approach and in the applicability of the categories he employs. Methodologically, the idea that any given political and economic structure contains dynamics that bring about its own destruction and a shift to a new structure presents a challenge to the usual straight-line extrapolation that fills most current political science, including the flavor-of-the-month notion of “path dependence.” It’s not novel—Marx and even Weber said the same thing—but novelty is overrated in the social sciences.

Empirically, his categories remain useful, once we adapt them to the passage of time and the (sometimes irreversible) changes that occurred during that time. The most important changes are the maturing of peripheral nationalism and the huge shift in the distribution of income that occurred in the rich OECD countries from 1929 through 1979. Although elites are recapturing part of their losses, they still have a lot of lost ground to make up. This is one reason why we see the inversion of over- and underconsumption that seems to be the most glaring inconsistency with Hobson’s analysis.

But this inversion of over- and underconsumption is simply the surface manifestation of a more important underlying phenomenon that is consistent with Hobson’s analysis. For Hobson, Imperialism emerged precisely because of the existence of an enormous, politically created, and self-sustaining macroeconomic imbalance: oligarchy and a maldistribution of income-reduced domestic consumption and thus the incentive to invest locally, while creating a foreign-debt-financed, overconsumption of investment goods in the imperial periphery. The subsequent inflow of foreign goods was not allowed to disturb oligarchic holders of wealth (agriculture was “protected” through tax relief) but instead was felt as downward pressure on working-class wages. Now it should be noted that working-class wages actually rose in Britain in the nineteenth century because of imports of cheaper food, even though the working-class share of the GDP probably fell. So even Hobson’s analysis gets it slightly wrong about the nineteenth century.

But the broad picture today is that which Hobson sketched: there is an enormous, self-sustaining (so far) macroeconomic imbalance that largely redounds to the benefit of those who hold U.S. equities and to the detriment of those in the United States who work in basic manufacturing or pay the taxes that fund the U.S. public debt. At the same time, whereas holders of U.S. public debt receive a secure return, they also miss out on the better opportunities available from nonpassive investments. Every increase in the value of U.S. equities reinforces the domestic political power of those equity holders (especially since 50 percent of the popu-

lation owns some equities now and thus has a material stake in persistent growth in capital gains), and quite naturally those equity holders use their power to maintain the existing macroeconomic structure. They buy elections at home, and they preserve international institutions and norms that protect their overseas investments. The macroeconomic imbalance thus is politically created and reinforced, much like the period of transition from Hobson's Informal Imperialism to his full-fledged Imperialism. Unfortunately, as Hobson noted, there is no stable situation of imperialism. Each situation contains the seeds of its own destruction.

Today, two dangers loom large: the first is the emergence of violent "anti-globalization" movements in the periphery. They are dangerous not because they or the periphery is powerful—quite the opposite—but they could trigger a shift into a quite dangerous formal Imperialism involving occupation, sustained military commitments abroad, and increased despotism at home. We have already seen a thickening of state power in the United States after September 11. Second, the U.S. trade deficit is not infinitely sustainable, unless the United States is able to create and sell assets at an unprecedented rate to finance that deficit. Even if the United States doesn't lose its position as the engine of world growth, it is not at all clear how the dollar can remain perpetually strong enough, and U.S. assets desirable enough, to induce Asians and others to park their trade surpluses in the United States. And because of the current structure of production in those countries, there is no guarantee that they will be able to generate local growth when they do flee dollars. Macroeconomic imbalances rarely swing back to balance, but typically overshoot. And that is also quite worrisome, even if there is no danger of a rerun of World War I on the horizon.

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