

THE ECONOMICS OF THE NEW PHASE OF IMPERIALISM

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1. The process of capital accumulation can be conceptually envisaged as occurring in two distinct and alternative ways. I shall call the first of these "accumulation through expansion". Capital exists at any time in numerous large and small blocs. When accumulation occurs through an expansion of each of these blocs, though admittedly at very different rates, and without displacing production outside of the capitalist sector (whether State production or pre-capitalist production), then we have "accumulation through expansion". "Mainstream" growth theory, *in all its versions*, sees the process of accumulation *exclusively* as "accumulation through expansion". Marxian economics too recognizes that accumulation over certain stretches of time *may* take the predominant form of "accumulation through expansion"¹. As distinct from this however one can visualize an alternative process, which I shall call "accumulation through encroachment". Here certain blocs of capital grow through the displacement (meaning either expropriation, or purchase at "throwaway prices" or snatching away the space) of other blocs, or through the displacement of pre-capitalist production, or through the displacement of State sector production, or through the sheer appropriation of common resources that have hitherto not formed part of private property.

To be sure, these two processes are never fully separate in concrete terms. Indeed one of Marx's basic propositions (Marx 1978, 584-9) was that the processes of capital accumulation, of an increase in the scale of production and of "centralization of capital" (of which the growth of one bloc of capital through the displacement of other blocs is an important mechanism) were intertwined and mutually-related processes, so that "accumulation through encroachment", in the sense of "centralization of capital" at any rate, was always round the corner even when "accumulation through expansion" happened to be occurring. Encroachment through "centralization" in other words was an integral part of the accumulation process. Rosa Luxemburg (1963) went even further to argue that "*encroachment on the domain of the pre-capitalist producers*" was at all times an integral part of the accumulation process. These two phenomena, namely encroachment upon the domain of the petty producers and encroachment upon the domain of the smaller capitalists, have in any case a family resemblance between them, which Marx (1978, 714) had himself highlighted (though unlike Luxemburg he saw the two phenomena as temporally separate, the first being confined to the period of the "primary accumulation of capital").

But even though "accumulation through encroachment" in the inclusive sense of the term is *always* an integral part of the accumulation process, so that the pure reign of "accumulation through expansion" is rare, and at best transitory, a conceptual distinction between the two is useful. *And a crucial feature of the new phase of imperialism is a vast increase in the relative importance of "accumulation through encroachment"*. To say this is not to claim that the more familiar phenomena such as expansion of the existing capital stock financed by the flow of profits, technological progress embodied in new equipment, or

¹Marx (1974, 263) talks of "this constant expansion of capital, hence also an expansion of production, on the basis of the old method of production which goes quietly on while new methods are already being introduced at its side..".

innovations of altogether new spheres of production, have ceased to exist; it is merely to assert that alongside these familiar phenomena (which in any case underlie "normal" centralization) there has been a veritable *upsurge* of "accumulation through encroachment".

All over the capitalist world, and especially in the third world, "disinvestment" of State sector equity and "privatization" of State sector assets, invariably at "throwaway" prices, is a pronounced phenomenon. This is nothing else but private enrichment at the expense of the State, or private accumulation through an expropriation of State assets. Likewise all over the capitalist world, especially the third world, public utilities like water and energy, and public provisioning of social services like education and health, have increasingly become domains of private sector operation and hence provinces of private accumulation of capital. Mineral resources, the control over which had been wrested by third world States after de-colonization through bitter struggles are now once again passing under the control of Multinational Corporations, the most classic example of this being oil. Agriculture everywhere is being "opened up" to multinational seed and marketing companies. Through a variety of means ranging from "contract farming" (under which the peasants get tied to MNCs); to outright expropriation of land; to purchase of land at "throwaway prices" from peasants reduced to penury, under the twin impact of higher input prices (more generally the withdrawal of State support) and reduced output prices; to the reduction of peasants to the status of inferior tenure-holders through the process of entrapment in debt; through all these means agri-business, catering to the demand emanating from the advanced capitalist countries, is displacing peasant agriculture. Likewise the removal of protectionist barriers erected by the third world nation-State is leading to an expropriation of small capitalists unable to withstand competition of imported goods produced by the MNCs. And everywhere common resources like forests or water or pastures or fallow land under common use are increasingly being taken over as private property. One can reel off examples of each of these phenomena from every country; and they all fall under the rubric of "accumulation through encroachment" whose decisive and pervasive emergence is a hallmark of contemporary imperialism.

2. This burgeoning of "accumulation through encroachment" is in turn the direct result of the pursuit of "neo-liberal" policies. "Neo-liberalism" operates in this respect in two distinct ways. The first way, which is much written about, is the pursuit of policies that remove restrictions on the movement of goods and capital across borders. "Trade liberalization" ousts small domestic producers from the market and generally engenders domestic "de-industrialization" (in the sense of increasing unemployment through shrinking domestic industrial activity); and liberalization of capital flows allows MNCs to buy up domestic producers through a combination of carrot-and-stick methods. The second way is through the imposition of "deflationary policies", especially on government expenditure, as part of the neo-liberal agenda. This, by negating Keynesian demand management and lowering the level of aggregate demand in the world economy, leads to centralization of capital on a global scale, a shift in the terms of trade against the peasantry and third world primary commodity producers who become easy preys for expropriation, and a rolling back of the State sector which becomes increasingly privatized and whose domain gets opened up as a province of private accumulation². In short, deflation is accompanied by accumulation through encroachment.

This deflation, needless to say, is not confined to the third world; it is a global

²For a more extensive discussion of the implications of global deflation see Patnaik (2003).

phenomenon. And the main driving force behind it is international finance capital which has emerged in an altogether new form in the recent years. The global tendency towards the adoption of deflationary policies has often been called "a retreat of the State". This is a misnomer: what we are witnessing is not a "retreat of the State" but a change in the nature of its intervention, from intervention carried out in its guise of a supra-class entity for the ostensible benefit of the "people as a whole", to intervention carried out in defence of the interests of international finance capital, with the support of the latter's local components which increasingly encompass the bulk of the large bourgeoisie, upper bureaucracy, and a collaborationist "globalized" elite.

Since the term "finance capital" was used extensively around the time of the first world war by a host of writers like Hilferding, Hobson and Lenin, it is worth emphasizing that contemporary finance capital differs fundamentally from what those writers had discussed (notwithstanding the differences *among* them). First, it has an overwhelmingly speculative character. This is different from the "finance capital" of the earlier period which was seen as the "coalescence of bank and industrial capital " (Lenin 1977, 664), or as "capital controlled by banks and employed by industrialists " (667), and hence, by implication, pursuing an objective dictated by the fact of this link with industry. Secondly, its behaviour is not necessarily related to certain perceived strategic interests specific and exclusive to the nation of its origin, because of which calling it "international" is more appropriate than identifying it in its different fragmented forms as "German", "British" or "American". And, thirdly it operates not in a world broken up by inter-imperialist rivalry, contributing to a further promotion and consolidation of such rivalry, but rather in a world where such rivalry is muted, and the very "international" character of this finance capital is *inter alia* an important factor behind this mutedness (since it wishes to operate over an entire undivided world).

At the same time, however, any focus on "finance capital", no matter of what sort, often conjures up an entity which is separate and detached from the world of production, so that focussing on this entity gives the impression as if the other entities like MNCs have somehow become of secondary importance. This impression is erroneous. The financial structure is a superstructure on capitalism, not detached from it but enmeshed with it, putting its own imprint upon it, so that the MNCs for instance do not become secondary, but themselves become "financialized", imbued also with the desire for speculative gain. In addition they also gain from the opening up of the world to the free flow of commodities and capital, through the process of "accumulation through encroachment". In short, the relevant distinction at the top ceases to be one between industry and finance or between productive capital and speculative capital or between entrepreneurs and rentiers. The possibility of "accumulation through encroachment" (including at the expense of small domestic capitals within the metropolis) brings about a commonality of purpose among all of them which overcomes these distinctions.

At the same time, there is a palpable slowing down of the growth of the world economy on account of the global pursuit of deflationary policies. Indeed this slowing down is precisely the other side of "accumulation through encroachment". The period of protracted post-war boom (the so-called "Golden Age of Capitalism") was by contrast a period when such encroachments were comparatively limited, a prominent State sector made its appearance everywhere, and third world economies, behind protectionist barriers, recorded rates of growth unprecedented in their recent history. The universalization of neo-liberal policies and the ubiquitous pursuit of deflation which reflected the rise to prominence of

international finance capital, changed all that.

Keynesian demand management policies which underlay the protracted post-war boom presupposed national capital controls (a necessary condition for the activism of the nation-State in matters of aggregate demand, output and employment), and a suppression of rentier interests within the nation (Keynes (1949, 376) had asked for the "euthanasia of the rentier" whom he characterized as "the functionless investor"). The conjuncture within which Keynesian demand management policies flourished (marked by greater political assertion by the working class), and the global regime produced by this conjuncture (the Bretton Woods system) ensured the satisfaction of these conditions. But the emergence of the new form of international finance capital during the "Golden Age" period itself contributed *inter alia* to a change in conjuncture.

In retrospect, the period of the post-war boom must be seen as an aberration in the "normal" functioning of capitalism, brought about by the very substantial threat posed in the post-war context by socialist, working class and third world nationalist politics to the very survival of metropolitan capitalism, rather than as a new kind of "normal functioning", as so many writers at the time had imagined. With the change in conjuncture and the subsidence of these threats, capitalism resumed its policies of "sound finance", the "orthodox role of the State" and "accumulation through encroachment", of which the palpable fall-out today are high levels of unemployment, and an open aggressive drive towards a re-colonization of the third world with the help of the local collaborating bourgeoisie.

3. Why, it may be asked, does capitalism adopt "sound finance" as its normal State policy? The usual answer to this question is given in terms of the *antipathy of finance capital* towards an interventionist State ensuring high levels of activity. The fact that international finance capital is in a dominant position in the contemporary world economy can then explain both why "sound finance" has come back into vogue after the Keynesian interlude, and also why it is so effectively enforced: finance being *international*, if a *nation-State* chooses to ignore its caprices, and jettisons "sound finance" and deflationism in pursuit of higher employment, then finance will move out of the country, precipitating a liquidity crisis and bringing the government to its knees. This fact keeps nation-States in thrall to the caprices of international finance capital. But then the basic question remains: why does finance capital have this antipathy at all and oppose Keynes-style interventionism?

Three obvious answers can be given to this question: first, a high level of activity brings in its train the fear of inflation and exchange rate depreciation, which, in a world typically characterized by non-indexed rates of return on financial assets, frightens speculators. Given this fact it is not surprising that they feel comfortable with lower levels of activity. Secondly, cuts in State expenditures and fiscal deficits are typically accompanied by disinvestment and privatization of State assets which can then be bought up "for a song" by rentiers and financial interests; and the same is true of the assets of small capitalists too. This fact also underlies finance capital's preference for deflationary policies as opposed to Keynes-style expansionary ones. Thirdly, as Kalecki (1943, 1971) had argued long ago, capitalists in general do not want the level of activity and employment to become "too high", for then the "workers will get out of hand" and the "sack will lose its meaning". And they certainly do not want a high level of activity to be brought about through State investment, and hence through the existence of a State sector, *since the social legitimacy of capitalism gets undermined by the existence and functioning of a State sector*. If this is true of capitalists generally, then it is infinitely more true of the financial interests who constitute in Keynes' phrase "functionless

investors" with very tenuous social legitimacy to start with anyway.

But the opposition of finance capital alone cannot explain capitalism's preference for deflationism, especially when industrial capital, no matter how much it ideologically dislikes State activism in matters of employment, stands so much to gain from it (at least until a level of employment is reached where the workers get "out of hand"). There is however a powerful additional factor which also contributes to deflationism. Let us now turn to it.

A capitalist economy cannot function without a stable medium of holding wealth. In an idealized textbook picture of an isolated national economy this role is performed by *money* backed by the State. But in the concrete world economy, the money of one particular economy, typically the most powerful capitalist economy of the time, is chosen to constitute this medium. Its *de jure* stability used to be assured, but not any longer, by linking it to gold which has historically been the most favoured medium of wealth holding; but its *de facto* stability is assured, whether now or earlier, by ensuring *inter alia* that commodity prices do not rise inordinately in terms of it. This requires, first, that the domestic workers in the leading economy must not get "too strong" to precipitate a wage-price spiral on their own, and secondly, that primary commodity prices must be kept in check so that no wage-price spiral is precipitated on this score. This latter requires not just control over raw material sources, but, additionally, control over world demand, through deflation³. In the colonial period, this deflation was specifically targeted towards the colonies and third world economies⁴. In the period of hegemony of international finance capital, this deflation is general, encompassing both developed and third world economies, and excluding only the leading economy itself (at present the U.S.), whose currency, being "as good as gold", places it under no obligation to pursue deflationary policies.

For this reason deflation and "sound finance" have always been a part of the baggage of capitalism. The question is often asked: why do the governments of metropolitan capitalist economies choose inflation control as an objective over higher employment⁵? The answer is that they really have no choice in the matter: inflation control is essential for the stability of the wealth-holding medium, and hence for the stability of capitalism; if in the process of achieving price-stability, much higher levels of unemployment are generated, then they simply have to be accepted and imposed upon the working class.

The caprices of international finance capital therefore find spontaneous expression in the policies being imposed all over the world by the leading capitalist economy of our time. This action of the latter on the other hand is not a whimsical or capricious one. It is to

3. Marx (1974, 118) had written: "It is therefore quite possible, and under a developed system of capitalist production even inevitable, that the production and increase of the portion of constant capital consisting of fixed capital, machinery etc. should considerably outstrip the portion consisting of organic raw materials, so that demand for the latter grows more rapidly than their supply, causing their prices to rise." Deflation according to our argument is resorted to even before such price rise can actually occur.

⁴For the role of deflation in the colonial context see U.Patnaik (1999).

⁵Professor Hicks had asked this question at the Golden Jubilee Conference of the Indian Statistical Institute, Calcutta (see Bose et.al. 1984). His answer was as follows: inflation occurs through a series of price-hikes and for an average economic agent, since *every price-hike other than his own appears directed against him* (even if he is not a loser at the end of the entire round of price-hikes), inflation appears to be a more menacing phenomenon than unemployment; governments take this perception of the economic agents into account, and hence, for political reasons, are more concerned about inflation than unemployment. Professor Hicks' amateurish invocation of agents' psychology however appears tame and unconvincing.

preserve the value of the wealth of a vast number of wealth-holders, including citizens of other capitalist economies. It commands support therefore even in economies being deflated, both because the financial interests located within these economies prefer deflationary policies, and also because the preservation of the value of wealth, through the preservation of the value of the leading currency, is important for all. The leading economy in this sense acts as the champion of the interests of international finance capital, of all its "aliquot parts" located within the various national economies, including those of the third world, even though the result of its actions is high unemployment, aggressive re-colonization, relative stagnation of the world economy and pervasive "accumulation through encroachment."

4. We have so far highlighted certain features of the new phase of imperialism by contrasting it with the period of Keynesianism, and suggested that it entails a throwback to the more "normal" pre-Keynesian capitalist policies of deflation, "accumulation through encroachment" and colonial-style predatoriness⁶. Let us now turn to a major *difference* between the pre-Keynesian period and the new phase of imperialism.

We talked earlier of the fact of the currency of the leading economy of the capitalist world in a particular historical epoch, being considered *de facto* if not *de jure* "as good as gold", and constituting, for this reason, a stable medium of wealth-holding for the capitalist world as a whole. For an economy, and hence its currency, to occupy this position, it must have superior military, and hence economic, might. Notwithstanding this might, however, it invariably experiences, after a certain stage, a *current account deficit vis a vis the other major capitalist economies*. An important condition for the stability of the capitalist system is that when such deficits arise, the leading economy must learn to live with them. If it did not persist with having such deficits, and thereby accommodating the products of the other major capitalist economies within its own (and its satellites') market, then the growth prospects of these economies would be damaged, leading to intensified protectionism, struggle among capitalist powers, disruption of the international monetary system, and an enveloping of the capitalist world in serious economic and political crises. Indeed the "leading role" of the leading capitalist economy consists precisely in its willingness and ability to tolerate such persistent deficits vis a vis the other major capitalist economies, and thereby keep the system as a whole going.

Britain had continued to have large trade and current account deficits vis a vis Continental Europe throughout the late nineteenth and early twentieth centuries, and with the U.S. in the pre-first world war period (when the U.S. started repaying its debt); and this willingness on her part to persist with the current account deficit vis a vis these "newly-industrializing" economies of the time was a condition for the continuation of the diffusion of capitalism to these new centres, for the survival of the Gold Standard, and for the sustenance of the long late-Victorian and Edwardian boom. Likewise the U.S. has for several years been running a persistent current account deficit not just with the other major capitalist countries, not just with the "newly industrializing countries" of today like China and East Asia, but in fact with the entire rest of the world taken together. And herein lies the difference.

While running a persistent current account deficit vis a vis the major capitalist economies of the pre-first world war years, Britain did not build up any debt against herself.

6. Since the inter-war years were a period of protracted crisis for capitalism and hence in a sense "abnormal", our reference to "normal" pre-Keynesian policies refers to pre-first world war capitalism.

On the contrary she used her colonial possessions like India, against whom she built up a *contrived current account surplus*, not only to settle her current account deficit vis a vis the major capitalist economies but *even to make substantial capital exports*⁷. These capital exports were to the temperate regions of White settlement, visavis which the tropical colonies like India had substantial current account surpluses.

The two main forms of the “contrived” current account surplus which Britain had visavis India were: the "drain of wealth" (so called by the anti-colonial economists in India at the start of the twentieth century) or the impounding and transfer to the metropolis of a part of the surplus value produced in India under the head "Home Charges" which were supposed to represent payment for the import of "good administration" by India; and the deliberate "keeping open" of the Indian market for the import of British textiles even at the expense of jobs of Indian artisans. (In fact Britain's current account surplus vis a vis India kept growing until it assumed enormous proportions during the first world war, but the changed correlation of forces after the war, entailing *inter alia* a massive Japanese thrust in the Indian market, apart from the growth of India's own industrial sector, closed this option for Britain and was a major factor behind the breakdown of the Gold Standard and the instabilities of the inter-war period culminating in the Great Depression.⁸)

The U.S. by contrast, having no colonies to "drain" surplus away from, is sinking into debt. Its current account deficit is not just vis a vis the major capitalist countries, or vis a vis the "newly-industrializing" economies of today; it is vis a vis the rest of the world as a whole.

Of course, if the rest of the world were to be willing for ever to finance the current account deficits of the U.S. by simply adding to its dollar reserves (as several Asian economies, notably China, have been doing), then the U.S. should have little cause to worry about this growing debt. But dollar reserves earn a pittance and sooner or later the holders of such reserves would wish to trade them for more lucrative American assets. Allowing such a shift would entail a “denationalization” of American assets which the U.S. State would be opposed to; on the other hand, not allowing such a shift would jeopardize the position of the dollar and plunge the U.S. economy, and indeed the system as a whole, into a profound crisis. The U.S. therefore cannot be unconcerned about its growing external debt. But each of the policy options available to it is fraught with serious consequences.

If it curtails its current account deficit by deflating its own economy (it has been under no compulsion as yet to deflate *for the sake of appeasing international finance capital*, since, its currency, being considered "as good as gold", puts it on a different footing from other capitalist economies), then it will precipitate a domestic as well as a global recession. If it curtails this deficit by imposing protectionist measures, then the entire trade and financial regime that has been built up of late, will become unsustainable, which again will threaten the economic and political stability of capitalism. It cannot also curtail this deficit by depreciating the dollar, since, apart from being difficult to achieve in a world with "market determined exchange rates", this will induce inflationary pressures, and entail wealth losses, both of which will jeopardize the position of the dollar as the reserve currency, and threaten the stability of the system as a whole. Not surprisingly therefore it is trying to achieve the same end, of reducing its current account deficit, by coercing Asian economies like China to

7. For a discussion of the role of colonies like India in settling British balance of payments, see S.B.Saul (1970).

8. For an elaborate discussion on this, see Patnaik (1997, Chapter 11).

revalue their currencies upwards.

In a world characterized by deflationary government policies, where fiscal deficits, except in the leading country, are eschewed, *any such revaluation of exchange rates amounts, however, to solving the problem of the leading country by enforcing a reduction of activity in the revaluing economies.* The point is obvious: imagine a world with only two economies, the “leader” and the “other”. Using subscripts 1 and 2 respectively for these two economies, since

$$(I-S)_1 = (S-I)_2$$

where the l.h.s. is the current deficit of economy 1, a revaluation of currency by 2 reduces the net export demand for its products and its hence output and savings. As a result the r.h.s. is reduced, which in turn means a reduction in the l.h.s.; that is, the net borrowing of the leading economy is brought down, with no reduction, rather on the contrary an increase, in its activity, through the imposition of a reduction in activity in 2. The leading economy therefore reduces its borrowing compared to what it might have been otherwise, witnesses an increase in its activity, and yet ensures that wealth-holders who hold their wealth in its currency or currency-denominated assets, experience no actual capital losses. (True, the value of the other currency has gone up relatively, but the value of the leading currency in terms of commodities has not gone down, as might have happened if it had depreciated instead of the other currency appreciating). It is not surprising therefore that the U.S. is recommending currency appreciation to the Asian economies in particular, with whom it has substantial current deficits.

Such appreciation however would convert the current global deflation into a veritable recession. The difference between the pre-first world war years and today consists therefore in this: unlike in that period when the leading capitalist power could draw on the expropriated surplus value of colonies to offset its own current account deficits vis a vis the major capitalist powers and hence keep the system going, today the leading capitalist power's current account deficits are vis a vis all groups of countries, since it has no colonies of that kind to draw surplus values from; and even a re-colonization of the third world is unlikely to yield a "drain of surplus value" on the requisite scale (and might instead become an "ulcer" like Iraq has become for the U.S.). Mankind has proceeded beyond the stage where old-fashioned colonial "drain" of the kind that the British imposed on India can be carried out with impunity.

What this means is the following: the system can be kept going at its current low growth rates but a price for it has to be paid in the form of growing U.S. indebtedness. If the latter is to be curtailed, then currency appreciations may have to be imposed on a host of unwilling economies, and even if they do succumb to pressure, the global deflation would turn into a veritable slump. Even if the leading economy is able to insulate itself from such a slump, that still would not mean that the system as a whole does not get engulfed in a crisis. The new phase of imperialism in short has brought the system to the brink of a major crisis.

5. The view that the new phase of imperialism is associated much more than before with accumulation through encroachment may be accepted by many, but its implications are not always understood. All accumulation, as Marx had argued, is associated with the growth of poverty, if for no other reason than at least owing to the fact that an enlargement of capital would necessarily go hand in hand with an absolute enlargement in the size of the reserve

army; and the reserve army above all is the site for poverty and destitution. But when accumulation takes the form, to a pronounced degree, of accumulation through encroachment, then the growth of poverty which accompanies the process of accumulation must be even more serious. And yet what is remarkable about the new phase of imperialism is that it justifies the adoption of neo-liberal policies, which is a euphemism for bringing countries under the hegemony of international finance capital, *in the name of eliminating poverty*. State sector assets are privatized in the name of improving "efficiency" which is supposed to usher in faster growth and *eliminate poverty*; State assistance to the peasantry is done away with in the name of making the peasantry adjust better to the market opportunities opening up, so that it can experience higher growth and hence reduce poverty; deflationary policies are imposed in the name of accelerating private investment and hence growth in the economy which would supposedly impact favourably on poverty: tax reductions are supposed to attract foreign investment and promote enterprise while a fiscal deficit is supposed to "crowd out" private investment. Indeed the entire obsession with the stock market is justified by the claim that "market sentiment" must be buoyant for high growth to occur and for poverty, consequently, to go down.

This entire line of argument is based on falsehoods. Not only is there no positive association between favourable "market sentiments" and higher investment and growth (the theoretical link between the two in any case had been demolished by the cognition of the role of effective demand), but, what is more, when the growth process is the fall-out of accumulation through encroachment, the claim that higher growth results in poverty reduction becomes a baseless one. If Latin America and Africa, where even the growth claims are extremely modest, provide classic illustrations of the poverty-accentuating effects of neo-liberal policies, India too does precisely the same, notwithstanding claims of high growth in her case under the neo-liberal dispensation.

Just one figure would suffice to make the point. The proportion of the rural population in India which had a consumption level of less than 2400 calories per person per day was 75 percent in 1999-2000 compared to 56 percent according to similar data in 19973-74 (neo-liberal policies were introduced in India from 1990-91 onwards). Even if we take the FAO recommended bare minimum necessary consumption of 1800 calories per person per day, then while there were only three states in 1999-2000 where more than one-third of rural population could not even meet this minimum, the number of such states in 2004-05 has increased to eight. The accentuation of rural poverty in India during precisely the years of the neo-liberal regime when growth rates are claimed to have been remarkably high, underscores the vacuity of the arguments justifying neo-liberalism in the name of fighting poverty.

But it is not only in the matter of poverty that the new phase of imperialism perpetrates an ideological fraud; the very theoretical premises on which the policies it imposes are argued are illegitimate. And yet these false premises are assiduously promoted everywhere through the teaching and research in the discipline of economics, with the backing of the governments of the major capitalist economies, of the IMF and the World Bank, and of the inherent conservatism which the professionalization of the discipline brings in its wake. The new phase of imperialism converts economics from a scientific discipline to an ideological tool for imperialist hegemony. All the measures which it proposes in the name of "efficiency", promotion of growth, and poverty removal, are based on the acceptance of Say's Law, and hence the premise of the impossibility of a deficiency of aggregate demand. The deflationism imposed by the very same policies which presume this, however, serves to perpetrate and perpetuate this very deficiency of aggregate demand.

6. The new phase of imperialism on the one hand turns large segments of the third world bourgeoisie into collaborators. In several of these countries the struggle for decolonization had been fought under the leadership of the domestic bourgeoisie or proto-bourgeoisie, which, after independence, had tried to pursue a path of relatively autonomous capitalist development. While allying itself with domestic landlordism, while compromising with the big capitalist powers, it had nonetheless retained a degree of autonomy. Using the post-colonial State to promote capitalist development, and pursuing non-alignment in foreign policy which enabled it to use the Soviet Union to keep imperialist pressures in check, it had managed to adhere to this path with a consistency which misled even an acute observer like Kalecki (1972) into believing that such regimes (which he characterized as "intermediate" and mistakenly thought were being led by the petty bourgeoisie) were a durable phenomenon of the contemporary world. But the internal contradictions of such regimes, combined with the collapse of the Soviet Union, and the emergence of international finance capital keen to prise open third world economies, altered the perspective of the third world bourgeoisie. From a position of relative autonomy it moved towards greater collaboration with imperialism; and from a *dirigiste* economic strategy it moved to embrace neo-liberalism. The hiatus was no longer between the third world nation and imperialism, as was the case during and following the struggle for independence, but between imperialism with its local bourgeois collaborators on the one hand and the mass of workers, peasants, agricultural labourers, petty producers and small capitalists on the other.

Perhaps the most significant feature of the new phase of imperialism is the squeeze it imposes on the rural economy of the third world countries where the bulk of the population of these countries lives. It is this fact which also provides the principal source of resistance to imperialism in its new phase.

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