

# Imperialism, Globalisation and the War on Iraq

*Oupa Lehulere\* argues that the war against Iraq is an inter-imperialist struggle between the US-British and Franco-German imperialisms, between the Euro and the Dollar for hegemony in the world economy*

## Introduction

The war on Iraq has begun, and when this article gets to print it might well be over. This war, however, represents a watershed in the post Second World War history of the world. Unlike many wars since 1945, the war on Iraq represents a proxy war between two major camps of capitalist powers: the Anglo-American alliance against the Franco-German alliance. Two issues have been mentioned as motive forces of the war. The one is oil, and the other is the interests of the arms industry. To this we need to add what is probably a more important dimension: a war between the Euro and the Dollar for a dominant position in the world economy. The US seeks to defend the place of the dollar, and the Franco-German alliance seeks to ensure that the Euro has a larger slice of the world economic pie.

Besides the campaign to stop the war, social movements all over the world are faced with another challenge: to provide a theoretical perspective on the war that will form a basis for long-term strategies against imperialism in an era of increasing inter-imperialist conflict. This article is a contribution to this task.

## Capitalism, Imperialism and War

Leftwing social movements and left (socialist) political parties have a long history of struggle against militarism and war. From the period of the emergence of capitalism, there has been a steady increase in expenditure on the military and on armaments. This increase in military expenditure, and in the growth of the armaments industry, took a major step forward towards the end of the 1800s. The growth in militarism was accompanied by an outbreak of wars, and this culminated in the First World War between 1914 and 1918. The analysis of the development of capitalism that was advanced during this period formed the basis of left socialist strategies against militarism and war. The analysis of capitalism and its relationship to war was summed up by Lenin in 1916, and the parties of the Second (Socialist) International summed up their political approach at a congress in Stuttgart, 1907. According to Lenin, the key to understanding developments concerning militarism and war was the transition to a new phase of capitalism, which he referred to as imperialism. One of the main features of imperialism was the fusion of industrial and banking, or money, capital. This fusion resulted in what Lenin referred to

as *finance capital*. In South Africa, for example, this process of the fusion of banks and industrial groups was very prevalent, and was at times referred to as conglomeration. Every major group had its industrial and banking arms, as can be seen, for example, in the Anglo-American group's control of First National Bank, and the Rembrant group's control of Absa.

Two main strategic lines emerged from this analysis. Firstly, the working class and its allies must strive to prevent the outbreak of war. Secondly, if war does break out the working class must utilise it to overthrow the capitalist class.

The intensification of capitalist crisis, and the resulting intensification of competition between the major capitalist corporations and political powers, led to the First and Second World Wars. These two wars, and the inter-war period from 1918 to 1939, confirmed, on the whole, the perspectives of the socialist left on the relationship between wars and inter-imperialist competition.

## Capitalist crisis and the break up of finance capital

From the end of the Second World War to about 1970 the world capitalist economy experienced one of its most sustained periods of growth. By 1971, however, this period of growth lay in ruins. In August 1971 the US put an end to the so-called international Dollar standard, according to which the US dollar was converted to gold at a fixed rate of US\$35 per ounce of gold. By March 1973, the US currency, which had been fixed (at varying rates) against all currencies, began to float freely. The international monetary system set up after the Second World War had collapsed.

The collapse of the international financial system was a result of two interrelated developments. The first was the overproduction of commodities. The economy was producing goods in quantities greater than the capitalist market could absorb. The second, and more important, was the overproduction of capital. The process of capital accumulation was proceeding faster than the possibilities of its profitable reinvestment. There were thus large amounts of capital that could not be profitably reinvested.

The crisis of overproduction of goods and of capital created a serious problem for the banks, which were major lenders to industry. The banks began to seek better profits for

their capital, and resorted to speculation and other short-term investments like investments in shares and bonds. The process led to the break up in the relationship between banking capital and industry that had been developed since the beginning of the 1900s, the period of imperialism as defined by Lenin.

The key event that signalled the break-up of finance capital was the emergence of the Eurodollar - US dollars which were circulating outside the US, and which were no longer flowing back into the US. Due to the strength of the US economy, every country, especially Europe and Japan, needed US dollars to import goods and capital from the US. As a result the US dollar was strong, and it could underpin the dollar-gold standard of the post-war financial system. By the end of the 1960s, however, Germany and Japan were beginning to compete with the US economy. The demand for dollars was in decline, and in the context of economic competition the strong dollar became a problem for the US.

By 1984, the amount of Eurodollars in circulation reached US\$ 1 trillion! The decision of OPEC in 1973 to price oil in US dollars led to the explosion in the amount of Eurodollars circulating. The price of oil shot up from US\$1.25 before the end of the dollar-gold standard to US\$12 in 1973, in response to the devaluation of the dollar. The side-effects of this was that the Gulf states were earning more dollars than they could invest or spend, and these surpluses reached US\$ 173 billion between 1974 and 1977.

We have, on the one hand, huge amounts of money capital, and on the other hand, the absence of profitable areas of investments, this money due to the unfolding global economic crisis. This money capital now earned money from speculating on currency movements, and on interest differentials among the various countries. So was born the large speculative and non-productive investments of literally trillions of dollars that has become so characteristic a feature of globalisation. In substance, the break-up of finance capital was complete. The liberalisation of financial markets in country after country deepened the break-up of the traditional relationship between banks and industry, the break-up of finance capital.

Globalisation is a new phase of imperialism. The break-up of finance capital opened up a new phase of imperialism. The new phase of imperialism, or globalisation, has a number of distinct features or characteristics.

The first, and most important, is the dominance of the money capitalist over the industrial or productive capitalist. The break-up of finance capital does not mean, however, that money capital de-links from industrial or productive

capital. While huge profits can be made from speculative activities of various kinds, it must be emphasised that money cannot be made out of money. In a capitalist economy, profits come from surplus value, and surplus value is in its turn produced in the process of production – in the course of the exploitation of labour power. Thus money capital must continue to look for profitable areas of productive investment, even in a period in which this is in short supply. Speculative activities, interest earnings and other forms of ‘money earned from money’ become the dominant forms of investment.

The other important features of globalisation are:

- A tendency to low growth. Since money does not in itself produce profits, and since money capital seeks quick returns, the pressure of stock markets for quick profits mean that the kind of long-term investment needed for long-run growth is discouraged.
- The intensification of inter-imperialist competition.
- The intensification of the processes of monopolisation.
- The intensification of the uneven development in the world economy. Although the neoliberal programme failed to set capitalism on to another long-run growth path, at different times different regions of the world, or different industries, managed to grow.

These features of globalisation, and in particular the dominance of money capital, and the intensification of unevenness, constituted the defining feature of the new phase of imperialism. Given the long-run stagnation on which it is based, globalisation is a form of capitalism that organises and facilitates the transfer of wealth from the weak (politically, economically and militarily), to the strong. Socially, it is a model that transfers wealth from the poor to the rich, from the working class (and other working people) to the capitalists. It is a model that transfers wealth from the producer capitalist to the money capitalist.

The model of ‘growth’ under globalisation can be seen when one looks at the US in the 1990s. The boom of the 1990s in the US was essentially a stock market boom. Stock prices were rising faster than GDP, and American citizens bought these stock on credit. The money that financed this credit was the large stash of Eurodollars (or Petrodollars) that had been circling the globe in search of quick profits. The second was the large amounts of capital which fled from Europe and Asia following the financial meltdown in October 1987, and the onset of the Japanese recession in the early 1990s. Both of these sources were tied to the high interest rate regime adopted by the US at the end of the 1970s. The US boom was therefore mainly financed by the strength of the dollar.

The place of the dollar in the world economy today, and the need for the US to defend this position at all costs and by all means necessary is the single most important factor in understanding the present contradictions of the world economy and the new phase of imperialism that it underpins. This fact is shaping the specific way in which inter-imperialist contradictions are unfolding at this time; it conditions the specific role that is played by the military-industrial complex in the US today, and the superior advantage enjoyed by the US military over its rivals – in particular Europe; and it explains, and reveals the war on Iraq as an inter-imperialist war, albeit by proxy. This also explains the roots of the war on Iraq: the war became necessary because when Iraq changed in oil pricing from dollars to Euros, it threatened the supremacy of the dollar in the world.

### **Globalisation and the US military-industrial complex**

Capitalists use the arms industry as an area of investment just like any other. The difference with other industries is that governments are the sole buyers of arms, and this means that in a period of economic crisis, when governments do not have enough money, the role of arms as a solution to capitalist crisis cannot be a sustainable one. On the other hand, the dominance of money capital, which took hold of the majority of branches of capitalist industry, has also spread to the arms industry. As with all other industries, the dominance of money capital comes at a cost.

There is now increasing pressure for the defense contractors to deliver high profits on a short-term basis. The result is that the defense industry must create enormous pressure for the state to purchase arms, and to manufacture fictitious threats to 'national security'. This massive increase in military deployment can be seen in the performance of US defense contractors' stocks on the major stock markets. Between September 2001 and August 2002 the stocks of the major defense contractors went up by 10%, while other stocks lost 20%.

The massive expenditure on arms also comes up against another contradiction of neoliberal globalisation. Because neoliberal globalisation is a low-growth economy, there has been major resistance from the capitalist class against high tax regimes that were characteristic of the post-war social democratic period. The relentless pressure for lower taxes has become the mantra of the neoliberals everywhere - South Africa included - and has been taken up with a vengeance by the Bush administration. After coming to power in 2001, Bush passed tax cuts of US\$ 1.35 trillion to be implemented over the next 10 years. This has led to the worst decline in tax receipts in 50 years; tax receipts declined by US\$ 138 billion.

The contradictions now come to a head: the US government has seen a steep decline in the traditional source of funds for military expenditure, on the one hand. On the other hand it is undertaking one of its most ambitious military expansion programmes. Furthermore, the defense contractors not only need huge amounts of capital to fund their arms production programmes, but they also need to produce quick returns as demanded by money capital. How does the US government reconcile these contradictory pressures, how does it fund this massive arms programme?

### **The dollar and the arms economy under globalisation**

Earlier on we saw that the US economy was given a lifeline when OPEC decided to price oil in US dollars. This created a situation in which the US could fund its economy by levying a 'dollar tax' on the world. Like the rest of the US boom of the 1990s, the arms industry was financed by large inflows of capital from abroad and the US pension funds. In the context of globalisation, therefore, the US arms industry can only play the role of reinvigorating the US economy because of the pre-eminent position of the dollar in the world economy. And so the political economy of the military-industrial complex becomes, in the phase of globalisation, the political economy of money capital.

### **Oil, the dollar and the war on Iraq**

The issue of oil has emerged as one of the central questions of the war on Iraq. The US is probably the single largest consumer of oil in the world, and it is also home to the biggest oil companies in the world. The place of oil in the US economy, however, has a two-fold character. The first is that of the US as a consumer of oil, and the second concerns oil as the commodity that underpins the dollar's role in the world economy.

Many social movements campaigning against the war in Iraq, and the war in Afghanistan before it, the importance of US oil interests in these wars has been revealed. It is now well known that the US, and its oil multinationals, stand to benefit from the large oil reserves held by Iraq.

From 1973 onwards, the US has had an interest in the direction of oil pricing policy within OPEC, and the need to ensure that OPEC will produce enough oil to keep the price within manageable levels. Even more important, the US needs to ensure that OPEC, and the major oil producing countries, maintain their policy of pricing oil in dollars.

The real, and fundamental threat to the US from OPEC, and in particular from Iraq, is that some of the oil producing countries have begun shifting away from dollar pricing of oil, and so threatening the role of the dollar as the global reserve currency.

In November 2000 Iraq took the bold and hugely significant step of shifting from dollar pricing for its oil, to pricing in Euros, the new currency of the European Union. The Saddam regime went further and converted its US\$ 10 billion reserve fund at the United Nations – held in the food for oil programme – to Euros. Iran has also expressed the intention to shift to Euros in its dollar pricing policy. Venezuela, while not shifting to Euro pricing yet, has taken a route that undermines the place of the dollar in the world economy. Venezuela has adopted a policy of direct barter for some its oil sales.

The result is that the world's currency reserves have been reconfigured, and the Euro has begun to be a serious reserve currency, although it is still far from replacing the dollar. Countries as diverse as Russia, The Peoples Republic of China, Taiwan and Canada are rearranging the composition of their reserves. Financial analysts predict that by the end of 2003 the Euro will make up around 20% of global reserves, which will come to about US\$ 2.4 trillion!

So, when Saddam Hussein took the bold move to convert Iraqi oil pricing to Euros, he “sealed his fate”, and in effect declared war on the US and its entire ruling class. The only thing that prevents a wholesale switch to Euros as the reserve currency is that oil is priced in dollars. Since all countries need to buy oil, they have to keep a substantial portion of their reserves in dollars. In turn, the fact that the dollar is reserve currency allows the US to finance its stock markets, the arms industry, and the state purchase of military equipment. The importance of oil in the war on Iraq must therefore be seen in the context of the oil's role in underpinning the dollar.

### **The 'Euro war' on Iraq and inter-imperialist rivalry**

It is obvious to any person that in the last 50 years there has been no military conflict between the various imperialist powers. There are a number of issues, recognised by most, which account for the 'unity' of the 'imperialist bloc'. Firstly, there was the struggle between Stalinist socialism led by the USSR and China, on the one hand, and the United States and capitalist alliance, on the other. Secondly, there is the question of the balance of economic and military power within the imperialist alliance at the end of the war. It is well known that the US emerged as the dominant economic and military power within the imperialist alliance. Other imperialist countries like Japan and Germany were dependent on the US for their reconstruction.

Thirdly, there is the question of the strength of the ruling classes of the other countries within the imperialist alliance. Of all the major countries

within the imperialist alliance, only the US ruling class emerged from the war having consolidated its hegemony over its own dominated classes. In other imperialist countries the ruling class had to engage in crucial class battles at the end of the war, as the working class contested the nature of the power that emerged out of the war. In France, for example, the Communist Party was a major social force, and the series of class struggles at the end of the war threatened capitalist class rule. The other imperialist ruling classes outside the US were not in a position to contest global hegemony with the US because of their internal weaknesses.

Fourthly, the evolution of post-war capitalism, especially since the 1970s, changed the terrain of inter-imperialist competition. The decision by OPEC to price oil in dollars, consolidated the hegemonic position of the US as against that of its rivals. From the late 1970s onwards, inter-imperialist competition would be primarily mediated by the evolution of the international financial system, and this was consistent with the character of the new phase of imperialism - the dominance of money capital. Dollar hegemony would make sure that the US would dominate trade competition and the competition for investment capital. We have also seen how the US is able to finance its programme of military domination by using the place of the dollar in the world economy.

At a point when the (economic) competitive strength of the other imperialisms began to equal that of the US, the transformation of the terrain of inter-imperialist competition that was ushered in by the transition to the new phase of imperialism, reinforced the dominance of the US. Thus, although at the level of economic competition, Europe (in particular West Germany) and Japan were able to turn the terms of trade against the US by the 1980s, they did not have a currency to rival the dollar. They also did not have the political space to spend on the military in a way that could rival the US military. For example, because of the outcomes of the Second World War, Germany is not a nuclear power.

We see that the reason for the absence of inter-imperialist armed conflict is the dominance of the US, and of the dollar. These conditions are now changing, and the period of inter-imperialist military confrontation is now opening up. The 'Euro war' on Iraq marks a major turning point in inter-imperialist rivalries.

### **The rise of the Euro zone and the challenge to dollar hegemony**

The formation of monetary union by some members of the European Union in 1999 represents a watershed in inter-imperialist relations. After starting life as a 'Cinderella currency' and trading well below par to the

dollar, the Euro has steadily gained respect as an alternative currency to the dollar.

Firstly, the Euro zone represents an economic zone of major significance. The Euro, especially after enlargement in 2002, will have a larger population than the United States. Already, the gross domestic product of the EU is comparable to that of the US, and all indications are that it might well surpass the US in the not too distant future. The Euro zone also boasts a highly developed infrastructure, and highly developed capital markets. This last point is of course of special significance in the new phase of imperialism, the phase of the dominance of money capital. Secondly, the launch of the Euro means that there is now a currency to rival the dollar.

Thirdly, in the economy of the EU zone, when compared to that of the US, the level of dominance of money capital is lower. For example, the pension funds are not yet privatised. The fact that this process of deepening the dominance of money capital will take place through the medium of the Euro will strengthen the Euro as a global currency.

Fourthly, the ruling class of the new EU still have a long way to go to consolidate their hegemony. This will be a long and complex process, and the outcomes are by no means predetermined. What is clear, however, is that a 'leading group' within the EU is emerging, made up of the Franco-German bloc, by far the most important economic force behind the Euro project.

The Iraqi war has revealed divisions within the EU ruling bloc, as can be seen by many other EU countries' support for the US. What is significant, and what is important for the evolution of inter-imperialist rivalry in future, is that the Franco-German bloc has remained united. Over time, the unity of the ruling class in the EU will in the main be facilitated by the Euro itself. On the other hand, establishment of hegemony over the working class will take place through the encirclement of the old working class of Europe by the newly incorporated working class of the countries of Eastern Europe. In 2004, 14 more countries, mainly from the former Eastern Europe, will join the EU. These working classes from Eastern Europe do not have the same traditions of struggle, will drag down labour standards, and break the political resistance to the project of the EU's imperial powers.

Fifthly, the existence of the EU and its unified currency, the Euro, will provide the political cover for the kind of re-armament that was not

possible in Germany and other countries of the EU. The Franco-German alliance will now intensify their rearmament programme.

### **The war on Iraq is an inter-imperialist war**

Since the end of the Second World War there have been two kinds of wars involving the imperialist powers. The first set of wars were wars which need to be seen in the context of the struggle between Stalinist socialism on the one hand, and capitalism on the other. The war in Vietnam is an example of this kind of war. The other set of wars were simply wars of colonial plunder and conquest, mainly by the US. The invasion of Panama by the US was one such instance.

At one level the US war on Iraq has all the features of a war of plunder, specifically of oil plunder. In this sense it represents continuity with the US's past practice in many parts of the world. On another level, the war on Iraq represents a kind of war that we have not seen for the last 50 years: it is a war between two imperialist camps: the US-British camp on the one side, and Franco-German imperialism, on the other. Two camps are locking horns over three key issues. Firstly, there is the struggle over the control of the important oil reserves of Iraq and the Caspian Sea. Secondly, the struggle is over the domination of the armaments markets by the arms industries of the two imperialist camps. The most important part of the struggle, however, is the struggle between the Euro and the Dollar for hegemony in the world economy. Saddam's decision to switch to Euro pricing for Iraqi oil was the last straw for the US. The war in Iraq, the so-called "regime-change", forms part of the plan to reconvert to Dollar pricing for Iraqi oil.

We can see, therefore, why the split in the 'grand imperialist alliance' is so acrimonious, and threatens the entire institutional fabric that had been built up over the last 50 years. The war on Iraq, which we now see is a proxy war between the two imperialist blocs, will deepen splits in the United Nations, in the North Atlantic Treaty Organisation (NATO), and soon we will see similar splits in the World Trade Organisation, the World Bank and the International Monetary Fund.

Contrary to the view of some writers, the era of inter-imperialist wars is not far off. The war in Iraq represents the first such war in a long time: the tensions can only escalate from now on.

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