

THE ADVANCED CAPITALIST STATE AND  
THE CONTEMPORARY WORLD CRISIS

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**T**HE ROLE OF THE MODERN INDUSTRIAL STATE in the world system has been the subject of numerous and often conflicting interpretations. In recent years a growing number of world order theorists have highlighted the declining importance of the state by drawing attention to several con-temporary trends, notably the erosion of traditional national boundaries, the blurring of the dividing line between domestic and international politics, and the ineffectiveness of government in many critical areas of policy.<sup>1</sup> According to this perspective, world society now comprises a whole range of systems, some basically economic, others scientific, cultural or ideological, which have "little relationship to state boundaries."<sup>2</sup> The problem of "territorial non-coincidence," however, raises difficult questions not only about the adequacy of the state-centric model of international relations, but about the future of the state and its relationship to the world economy.

The traditional national/international dichotomy appears to have lost much of its former relevance, especially at a time when capital is outgrowing national boundaries, thereby creating new tensions between the political and economic organization of the world. Conventional wisdom has it that the nation-state enjoys, or at least enjoyed in nineteenth century Europe, a considerable degree of independence in international decision-making. However, even in the last century the alleged autonomy of diplomatic and military conduct from the operation of world market forces was more apparent than real. In the twentieth century, the in-

ternationalization of economic activity under the aegis of the transnational corporation, the deep and accelerating interpenetration of national economies, and the increasing institutionalization of trade, monetary, financial and technological exchanges across national boundaries have accentuated the absurdity of sustaining the separation of politics from economics.<sup>3</sup> Indeed, it cannot be readily assumed that the state is solely or even' primarily a political actor. As I shall seek to establish, the state has played a crucial role in the creation of a world market and the establishment of an international division of labor. To the extent that the state remains central to the current functioning of the world economy, it is bound to be one of the most important variables in any equation which serves as an explanation of the contemporary world system.

According to Wallerstein, the system of sovereign states is, one of the three structural constants of international political economy which, together with the core-periphery division of labor and the world market, sustain capitalist commodity production.<sup>4</sup> The international division of labor and the resulting exchange between center and periphery, expressed in productivity and wage differentials, are mediated through the control structures provided by the state system.<sup>5</sup> Thus, for example, during periods of conflict between metropolitan states the ex-change network between the center and the periphery assumes 'an increasingly multilateral character. But in addition to crystallizing the core-periphery division of labor, the state system also concretizes, through legal, diplomatic, and military arrangements, the distribution of power within the core, thereby providing the crucial mechanism for the control of economic production in different sectors of the capitalist world system.

3 The primacy of economic considerations is strikingly reflected in the foreign policy pronouncements of all major capitalist governments during the 1970s. See Helmut Schmidt, "The Struggle for the World Product," *Foreign Affairs*, Vol. 52, No. 3, April 1974, pp. 437—51; Walter F. Mondale, "Beyond Detente: Toward International Economic Security," *Foreign Affairs*, Vol. 53, No. 1, October 1974, pp. 1—23. See also J.E.S. Hayward and R.N. Berki (eds.), *State and Society in Contemporary Europe* (Oxford, 1979).

4 I. Wallerstein, "Semi-Peripheral Countries and the Contemporary World Crisis," *Theory and Society*, Vol. 3, No. 4, Winter 1976, pp. 461—84.

5 Although there is considerable variation in the use of terms, for the purpose of this analysis dominant/dependent, center (core)/periphery and metropolis/satellite will be used interchangeably.

1 See J.W. Burton, *World Society* (Cambridge, 1972); R. Falk, *A Study of Future Worlds* (Amsterdam, 1975); Seyom Brown, *New Forces in World Politics* (Washington, D.C., 1974).

2 J.W. Burton, *Systems, States, Diplomacy and Rules* (Cambridge, 1968), p. 10.

In so far as the state expresses and reproduces, both internally and externally, the process of stratification, the formation of power blocs within states and of alliances between states (or between power blocs from different states) may be said to constitute one of the essential institutional props for the international system of unequal exchange. The division of labor on which this system is based results in the transfer of surpluses from the peripheral to the metropolitan sectors of the world economy. But the world-wide distribution of surpluses is considerably more complex than this simple dualistic image would suggest. Accordingly, Wallerstein has proposed a more realistic model which postulates the existence of semi-peripheral nations and markets which act as "*intermediate* elements in the surplus-extraction chain," and which, in periods of international recession, may "expand control of their home market at the expense of core producers, and expand their access to neighboring peripheral markets, again at the expense of core producers."<sup>6</sup> These shifts in advantage are normally expressed in the pattern of diplomatic and military alignments and in the declining capability of metropolitan powers to engage in interventionist policies. Although this threefold division (i.e., metropolis — semi-periphery — periphery) represents a closer approximation of reality, it still does not wholly capture the complexity of the world system, for even within each of the three categories there are substantial conflicts and contradictions, with the result that some semi-peripheral states gain at the expense not only of core and peripheral states but also of other semi-peripheral states. Indeed, the large disparities in economic and military power and the diversity of roles within the semi-periphery raise serious questions as to the validity of this category. On the other hand, Wallerstein's model does illuminate the dynamics and adaptability of the international division of labor, as well as the way in which the contradictions implicit in stratification, competition and uneven development are at least moderated by the opportunity for mobility along the vertical organization of economic and political roles.<sup>7</sup>

6 I. Wallerstein, "Semi-Peripheral Countries and the Contemporary World Crisis," p. 464.

7 See I. Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis," *Comparative Studies in Society and History*, Vol. 16, 1974, pp. 387-415.

But the stabilizing strategy of coopting oppositional forces within world capitalism by offering them a share in the privilege derived from the international division of labor can only be relative and temporary. It cannot resolve the fundamental contradiction inherent in a competitive and hierarchical system, and ultimately exacerbates the crisis confronting all states. The aim of this paper is to examine the systemic crisis from the perspective of the advanced (core) capitalist state, without in any way implying that states in the periphery or semi-periphery of the world economy are less deserving of attention.<sup>8</sup> It could be argued that the analysis of the peripheral state and of its function within the world market has been one of the most valuable contributions of dependency theory.<sup>9</sup>

Regrettably, it is only very recently that a comparable theoretical effort has been made to situate the metropolitan state within the contemporary international division of labor. Whether in this respect the "socialist" industrial state performs a function within the world system which is qualitatively different from that of the liberal capitalist state is not altogether clear. For even where the abolition of property relations has made possible a measure of central economic control, the planned economy is still shaped by international competition which is itself the expression of global capitalist production.<sup>10</sup> In so far as the satisfaction of consumer demand within the communist unified planning systems has come to depend on the import of multinational technology, capitalist penetration may be said to have become the *sine qua non* of the stability of bureaucratic socialism.<sup>11</sup> To a large extent the socialist state has had to operate within a framework of military competition (arms race) and economic ex-

8 For a penetrating analysis of the peripheral state in terms of its domestic functions and role within the world economy, see W. Ziemann and M. LanzendOrfer, "The State in Peripheral Societies," in *The Socialist Register 1977*, edited by R. Miliband and John Saville (London, 1978).

9 For a review of the literature see *Latin American Perspectives*, Vol. 1, No. 1, Spring 1974, and J. Camilleri, "Dependence and the Politics of Disorder," *Arena*, Nos. 44-45, 1976, pp. 34-58.

10 See I. Wallerstein, "Trends in World Capitalism," *Monthly Review*, May 1974, Vol. 25, No. 12, p. 16.

11 The possible fusion of western corporate interests and communist planning systems is discussed by Irving Louis Horowitz, "Capitalism, Communism and Multinationalism," in *The New Sovereigns: Multinational Corporations as World Powers*, edited by A. Said and L. Simmons (Englewood Cliffs, N.J., 1975).

change whose *modus operandi* is still very much determined by the international capitalist system. At the same time, it has to be admitted that the international linkages tying the centrally planned economies to the world market economy have yet to be subjected to close theoretical scrutiny. Such a task, however, is beyond the scope of this exposition. The aim here is simply to elucidate the increasingly complex and crisis-prone relationship between the advanced capitalist state and the world economy.

*The Internationalization of Capital*

Since the Second World War almost every field of economic activity has undergone rapid and accelerating internationalization. The process has been, particularly evident in world trade, which has experienced an even faster rate of growth (the average annual rate in recent years has been estimated at 10 per cent) than world income. Even more impressive has been the growth of international capital flows, involving not only portfolio movements but direct investment and increasingly massive shifts of liquid balances. In 1973 business generated by multinational enterprises outside their home countries amounted to \$350,000 million a year, that is, one-eighth of the gross product of the non-communist world. The internationalization of production is closely related to the extensive diffusion of capital, technology and managerial skills across national boundaries. Even labor has become internationally mobile, at least within certain regions and in certain sectors of the economy.<sup>12</sup>

Although reliance on external transactions by virtually all national economies has now reached unprecedented proportions, the trend has been a distinguishing feature of capitalist industrialization for more than a century.<sup>13</sup> With remarkable in-sight into the nature of capitalist development, Marx was able to paint as early as 1848 a vivid picture of the shape of things to come:

<sup>12</sup> See C. Fred Bergsten, *Toward a New International Economic Order: Selected Papers, 1972—74* (Lexington, Mass., 1975), especially Part I.

<sup>13</sup> It has been argued that the world economy already existed in sixteenth century Europe, since by that time capitalist commodity production was organized "by a world market in which both purely economic competitive advantage and political interference by states play[ed] an interactive role." (See Christopher Chase-Dunn and Richard Rubinson, "Toward a Structural Perspective on the World System," *Politics and Society*, Vol. 7, No. 4, 1977, p. 455.)

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. ... In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. ...<sup>14</sup>

Quite apart from its extraordinary prescience, the above passage points to one of the central contradictions of contemporary capitalism, namely, the tension between the territorial constraints of the state and the international expansion of capital. The very process of urbanization, of political and economic centralization, which gave rise to the nation-state, has now unleashed productive forces which cannot be contained within national boundaries.

By the turn of the century the export of capital, that is, the transfusion of capital from one national sphere to another, was widely recognized as a defining characteristic of modern' economic life. Hobson's theory of imperialism (published in 1902) was explicitly premised on the expanding powers of capitalist production and the consequent endeavors of the controllers of industry to channel their surplus wealth into foreign markets and investments.<sup>15</sup> Bukharin, writing in 1915, maintained that the growth of productive forces had resulted in "the intertwining of national capitals" or "the internationalization of capital."<sup>16</sup> As a consequence of this process new structures were developed, mirroring the national cartels and trusts created by the growth of productive forces within the national economy. The process of international cartellization and trustification coming to the fore at the end of the nineteenth century represented in embryonic form an attempt to contain the anarchic structure of the world economy. This increase in international organization was greatly facilitated by the operations of the large world banks and the expanding interconnection between banking and industrial capi-

<sup>14</sup> Karl Marx and Frederick Engels, "Manifesto of the Communist Party," in Marx and Engels, *Selected Works* (New York, 1968), pp. 38—9.

<sup>15</sup> J.A. Hobson, *Imperialism: A Study* (Ann Arbor, Michigan, 1965), p. 85.

<sup>16</sup> N. Bukharin, *Imperialism and World Economy* (London, 1972), Parts I and II.

tat, which eventually gave rise to a new phenomenon: finance capital.<sup>17</sup>

Though accurate as a description of the new reality, the more valuable aspect of Bukharin's conceptual framework is his grasp of the strains and stresses arising from the internationalization of the economy, which normally found expression in sharp conflicts between national interests as defined by the ruling bourgeoisie. The growth of international commodity exchange and capital export did not necessarily enhance the degree of solidarity between the exchanging groups. On the contrary, it was often accompanied by "the most desperate competition, by a life and death struggle." The "internationalism" of capital found expression in imperialistic nationalism, while the international division of labor transformed the private national economies into parts of a rapidly integrating economic process, extending to almost every corner of the globe. As productive forces operating within the narrow limits of state boundaries broke through those limits, they inevitably collided and sought to mobilize every *national* resource in the prosecution of *international* conflict. The growth of national war machines, involving the conscription of whole nations and their economies, thus gave rise to a new phenomenon: total war. Whereas in the nineteenth century crises and depressions had sufficed to alter the conditions of production and restore capital expansion, by the turn of the century the point was reached where the restructuring of capitalist production through competition and recession was no longer sufficient to ensure adequate profitability. In Paul Mat-tick's words, "the business cycle became a 'cycle' of world wars."<sup>18</sup>

But the full implications of this revolution in international relations do not become apparent unless account is taken of the equally far-reaching and related revolution in the state structure underpinning national capitalism. The development of the world economy gave added stimulus to the process of concentration, and ultimately transformed "the entire national economy into one gigantic combined enterprise under the tutelage of the fi-

17 See R. Hilferding, *Finance Capital: A Study of the Most Recent Development of Capitalism* (Vienna, 1923); also H. Feis, *Europe: The World's Banker 1870-1914: An Account of European Foreign Investment and the Connection of World Finance with Diplomacy Before the War* (New Haven, Conn., 1930).

18 Paul Mattick, *Marx and Keynes: The Limits of the Mixed Economy* (London, 1971), p. 135.

nancial kings and the capitalist state."<sup>19</sup> But as already indicated, the progressive fusion of economic and political processes, reflected in part in the development of a central banking system, merely served to accelerate the interpenetration of national economies and to accentuate the force of national antagonisms. The First World War and the Great Depression were a dramatic expression of these two closely interacting trends. It is not surprising, therefore, to find Keynes advocating in the 1930s a re-turn to national self-sufficiency and a retreat from international market capitalism. Expressing a view which was sharply at variance with prevailing notions of international specialization and export-oriented growth, he argued:

We do not wish . . . to be at the mercy of world forces working out, or trying to work out, some uniform equilibrium according to the ideal principles, if they can be called such, of *laissez-faire* capitalism. . . . We wish — for the time at least and so long as the present transitional experimental phase endures — to be our own masters, and to be as free as we can make ourselves from the interferences of the outside world.<sup>20</sup>

But Keynes' strictures against the world market had relatively little impact on economic policies after the Second World War, which, under American leadership, ushered in a new and unprecedented period of capital expansion through the progressive integration of the world capitalist system. Taking advantage of the favorable economic and political environment created by *Pax Americana*, multinational firms initiated a program of far-reaching industrial and geographical diversification. The liberalization of international trade, the establishment of the dollar as a "vehicle currency" for international business and financial transactions, the absence of any serious political impediments to the export of capital and the adoption of large foreign aid programs greatly assisted the multinational penetration of national economies.<sup>21</sup>

The financial and administrative strength of the large cor-

19 N. Bukharin, *Imperialism and the World Economy*, p. 73.

20 John Maynard Keynes, "National Self-Sufficiency," *The Yale Review*, Vol. 22, Summer 1933, pp. 761-62.

21 For an examination of various theoretical perspectives on the phenomenon of economic transnationalism see Joseph A. Camilleri, *Civilization in Crisis: Human Prospects in a Changing World* (Cambridge, 1976), pp. 92-112.

poration enabled it to incorporate the advances of the physical and social sciences and apply them to the creation of "a new structure of international industrial organization and a new international division of labor."<sup>22</sup> As Stephen Hymer has incisively observed, what distinguishes the transnational corporation from the merchant firm and the large mining or plantation enterprise of previous centuries, as well as from the modern small-scale manufacturing firm, is the peculiar combination of extreme specialization and differentiation with high degrees of centralization and integration. It is precisely the development of a highly sophisticated "brain and nervous system" capable of connecting widely disparate departments and geographically distant divisions that has made possible the increasingly cosmopolitan control over raw material requirements and market outlets.

In the light of the above analysis, one can readily understand why the transnational corporation should have been described as the most powerful instrument in the internationalization of production. According to several writers, the international mobility of manufacturing capital and the implicit capacity to relocate production from one country to another have greatly enhanced multinational leverage with respect to labor. In turn, the existence of a relatively disciplined labor force has been a central factor in the successful accumulation and expansion of capital. The ability of capital to exploit the wage differential between national economies illustrates the international unity of the reproduction of capital, which paradoxically thrives on and accentuates the process of uneven development.<sup>23</sup>

Ironically enough, for this economic project to be realized, it became necessary to apply the Keynesian theory of state intervention in order to provide adequate incentives for the private sector, create expanding domestic and foreign markets, and devise an institutional framework capable of underpinning the expansion of international trade and finance. Keynes' theory of state policy thus became a tool for the continued expansion of

22 Stephen Hymer, "The Multinational Corporation and the Law of Uneven Development," in J. Bhagwati (ed.), *Economics and World Order, from the 1970s to the 1990s* (New York, 1972), p. 114.

23 Christian Palloix, *Les firmes multinationales et le proces d'internationalisation* (Paris, 1973); Nicos Poulantzas, *Classes in Contemporary Capitalism*, translated from the French by David Fernbach (London, 1975).

private capital, both nationally and internationally.<sup>24</sup> The ensuing social structure has been variously described as the "socioindustrial order,"<sup>25</sup> the "new industrial state,"<sup>26</sup> the "contract state,"<sup>27</sup> or even the "military-industrial complex."<sup>28</sup> Whichever term is used to describe the phenomenon, the inescapable fact of modern capitalism is the progressive integration of the productive process with the political apparatus of society.

Enough has been said to indicate that the state has played a decisive role at each stage of the international division of labor. During the so-called competitive phase of capitalism, the theory of comparative advantage was applied to international trade, thereby producing, in Palloix's terms, the "internationalization of commodity capital." A new phase in the division of labor was ushered in by the expansion of banking capital and its interconnection with industrial capital, thereby extending the process of internationalization to "the circuit of money capital." In the current period, internationalization has spread beyond the circuits of commodity capital (trade) and money capital (finance), and entered a new stage, the internationalization of productive capital (multinational production), which necessarily overlaps with and reinforces the previous two stages.<sup>29</sup> Quite apart from the descriptive value of Palloix's historical conceptualization is its explanatory potential regarding the function of the state. For central to his thesis is the notion that the state has provided the structural underpinning for each of the three phases. The establishment of trading companies, the acquisition of colonies, the alternating policies of protectionism and liberalization, the development of military power, all point to the omnipresence of the state in the creation of the world economy. Applied to the contemporary period, Palloix's argument stands much of the theorizing on the obsolescence of the nation-state on its head,

24 See Andrew Schonfeld, *Modern Capitalism: The Changing Balance of Public and Private Power* (London, 1965).

25 Raymond Aron, *Progress and Disillusion: The Dialectics of Modern Society* (London, 1968).

26 John Kenneth Galbraith, *The New Industrial State* (2nd ed.) (Harmondsworth, 1974).

27 H.L. Nieburg, *In the Name of Science* (Chicago, 1966).

28 Fred J. Cook, *The Warfare State* (New York, 1962); Sidney Lens, *The Military-Industrial Complex* (Boston, 1970).

29 Christian Palloix, "The Self-Expansion of Capital on a World Scale," from *L'Internationalisation du capital* (Paris, 1975), *The Review of Radical Political Economics*, Vol. 9, No. 2, Summer 1977, pp. 11-12.

and stresses the critical role of the state (not only the metropolitan state, but also the peripheral and semi-peripheral state) in creating the necessary conditions for the export of capital and the internationalization of production. But in so far as it sustains the international division of labor and accentuates the process of uneven development it may be considered as both agent and victim of the contemporary world crisis.

#### *The Framework of Internationalization*

Although the growth of the world economy expresses the increasing interdependence of national economies, it is clear that within the world market there exists not a harmonious aggregation but a hierarchical plurality of national markets.<sup>30</sup> It is precisely the uneven and competitive development of the major capitalist economies that led Lenin to his distinctive theory of imperialism. In sharp contrast to Kautsky's notion of a new ultra-imperialist policy which would eliminate national rivalries and "introduce the joint exploitation of the world by internationally united finance capital," Lenin interpreted international alliances as mere truces between wars, which would eventually collapse, and cited the growth of large armament industries as evidence of the incompatibility of national capitals arising from the very internationalization of capital.<sup>31</sup> The Lenin-Kautsky controversy offers, then, two competing theoretical constructs for the analysis of contemporary inter-capitalist relations. On the one hand is the *ultra-imperialist model* which postulates a dominant coalition of relatively autonomous metropolitan states as providing the overarching structure needed to preserve the unity of the system. Translated into traditional phraseology, the major states assume the primary responsibility for maintaining a balance of power, thereby preventing any one among them from achieving hegemony through force. The Leninist model, on the other hand, asserts the primacy of *imperial rivalry* which periodically gives rise to inter-state violence. In other words, the state does not perform a stabilizing function for the system as a whole, but

30 See R. Murray, "The Internationalization of Capital and the Nation-State," *New Left Review*, No. 67, May/June 1971, pp. 84—109.

31 See V.I. Lenin, *Imperialism: The Highest Stage of Capitalism*, first published 1917 (Moscow, 1970); K. Kautsky, "Ultra-Imperialism," *Die Neue Zeit*, September 1914, translated in *New Left Review*, No. 59, January—February 1970.

rather acts as an agent for the interests of domestic capital — hence the inevitable collision of rival national capitalisms.

There is, however, a third conceptual framework for the analysis of inter-capitalist relations which has particular relevance for the post-1945 period. This model is predicated on the tendency for economic competitive advantage to become concentrated in a single state. Although domination, may not be complete and antagonisms may surface from time to time, the hegemonic state acts as the organizer of world capitalism and preserves its unity in face of internal and external threats. The restructuring of the world's trading and monetary systems at the end of the Second World War and the establishment of a net-work of military alliances, in so far as they ensured the strategic and economic integration of their members under undisputed American leadership, would appear to conform to this model. The monopoly position of U.S. capital made possible a new phase in capital accumulation resulting in unprecedented economic growth and the gradual absorption of the socialist economies into the world market.<sup>32</sup>

But inherent in this accumulation was the re-emergence of competition. A dialectical situation prevailed: the expansion of U.S. capital required the reconstruction of European and Japanese capital. The only alternative to a direct U.S. role was the creation of competitors who would eventually erode the U.S. monopoly position.<sup>33</sup> Predictably, with the apparent decline of American power since the 1960s, the concept of hegemony or U.S. super-imperialism as the key to an analysis of inter-capitalist relations has fallen into some disfavor — hence the revival of the other two models. Thus, for example, Mandel, who subscribes to the Leninist thesis, argues that the hegemony of the United States is being effectively challenged by the Europeans and the Japanese.<sup>34</sup> In his view, a series of company amalgamations in Europe and Japan, the gradual accumulation of capital, and the

32 The hegemony model has been developed by several writers, including: H. Magdoff, *The Age of Imperialism* (New York, 1969), and P. Jalee, *L'Impérialisme en 1970* (Paris, 1970).

33 See John Weeks, "The Sphere of Production and the Analysis of Crisis in Capitalism," *Science & Society*, Vol. XLI, No. 3, 1977, pp. 294—5.

34 E. Mandel, *Europe versus America? Contradictions of Imperialism* (London, 1970); see also E. Mandel, "The Laws of Uneven Development," *New Left Review*, No. 59, January—February 1970.

growing sophistication of technological know-how have sharply reduced the advantage in productivity held by American capital. To the extent that European and Japanese wages were lower than American wages, increases in productivity enabled Europe and Japan to compete successfully with most American products, not only on the world market but even within the American domestic market. The rapid expansion of European and Japanese manufacturing exports as compared with America's deteriorating trade performance is cited as evidence of economic multipolarity.

For Mandel, the process of Western European economic integration is an expression of capitalist concentration on a world scale and an attempt to release European industry from the short-sighted economic nationalism of the inter-war years. The development of large financial and productive units inside the Common Market, assisted by the creation of a supranational state, is seen as dictated by competition with U.S. capitalism. To the extent that European state power is being used to assist European big capital, it acts as a "nationalist" force, independent of other states, and constitutes, at least in embryonic form, an "imperialist metropolis." The relationship between capital inter-penetration and political integration is described in the following terms:

... the growth of capital interpenetration inside the Common Market, the appearance of large amalgamated banking and industrial units which are not mainly the property of any national capitalist class, represent the material infrastructure for the emergence of supranational state-power organs in the Common Market.<sup>35</sup>

European political integration, it is argued, will hasten the process of merger, rationalization and accumulation, thereby encouraging foreign investment as the most effective means of penetrating foreign markets, in the United States and elsewhere. In this sense, the forces pushing European states into closer alliance with each other are likely to exacerbate tensions between Europe and the United States. Should the European states succeed in forming a single national metropolis they would accen-

35 E. Mandel, "International Capitalism and Supranationality," in R. Miliband and J. Saville (eds.), *The Socialist Register 1967* (London, 1967), p. 31.

tuate international antagonisms and reinforce the trend towards *imperial rivalry* as the dominant tendency within the international capitalist system.

Though the Mandel thesis has been supported by an impressive array of arguments, including the notion that technological superiority and financial and political leverage may be assets of limited and diminishing value,<sup>36</sup> several recent contributions have reasserted the applicability of the *hegemony* model. James Petras and Robert Rhodes, for example, have argued that the structural weaknesses of the American imperial system have been overestimated and allowed to obscure the reconsolidation of U.S. hegemony in global politics.<sup>37</sup> In support for this proposition, they point to growing American dominance in international finance (indicated in part by the greatly increased assets of the foreign branches of U.S. banks), and to the advantage which American capital derives from it. More important, they stress the nature of political and social relations within the United States, especially the absence of a well-organized labor movement, which enables the managers of American society, unlike their counterparts in Europe and Japan, to weather economic crises by maintaining high rates of unemployment, low provision of social services and large subsidies to privately controlled research and development. A third structural feature reinforcing American supremacy in the world economy is said to be its much greater accessibility to world resources in comparison with its major potential rivals. Finally, the long reach of the American state and its continued military preponderance are seen as enhancing the penetration of U.S. capital, particularly in peripheral and semi-peripheral economies. The development of an Arab industrial complex tied to the American multinational empire is cited as further evidence of the overall competitive advantage of the United States within the world economy.

While the above assessment sounds a timely warning to those who would prematurely pronounce the end of *Pax Americana*, the argument is far too selective of historical reality and its theoretical structure insufficiently rigorous for it to be altogether

36 Bob Rowthorn, "Imperialism in the 1970s — Unity or Rivalry," *New Left Review*, No. 69, September—October 1971, p. 35.

37 James Petras and Robert Rhodes, "The Reconsolidation of U.S. Hegemony," *New Left Review*, No. 97, May-June 1976.

convincing. A somewhat more penetrating analysis is offered by Poulantzas, for whom the decisive factor remains the pattern of American investment in the European Community.<sup>38</sup> Contrary to Mandel's argument, Poulantzas notes that the widespread tendency for European companies has been to merge with American companies rather than among themselves. Even in the case of a European amalgamation, what is normally involved is not a real merger resulting in integrated production, but an "understanding" or some limited form of association. By contrast, mergers involving American corporations almost invariably produce a substantial shift in ownership and control in favor of American capital. Although the consequences of the interpenetration of capital remain ambiguous, Poulantzas undoubtedly points to empirical evidence which must be carefully evaluated.

In any case, Poulantzas himself recognizes that the dependence of the metropolitan economies (Europe and Japan) on American capital cannot be equated with the dependence of the peripheral economies (Third World). For the metropolises retain a certain autonomy which leads to "significant contradictions between the internal bourgeoisie and American capital,"<sup>39</sup> and finds expression in the political structure of the state. In other words, the uneasy alliance between the metropolises, while reflecting American hegemony, involves considerable elements of conflict. The current internationalization of capital, far from producing the extinction of the nation-state under the aegis of the American superstate, gives rise to a system of complex and rowing interactions among metropolitan states, although the dominant power (the United States) retains a decisive role both within the system as a whole and in each of its constituent units. Poulantzas concludes that American hegemony, while it has generally declined in comparison with the exceptional levels it reached soon after the Second World War, has actually gained strength by the very fact of European reconstruction. The reactivation of inter-capitalist rivalries signifies, then, a new phase but not the end of American hegemony. Clearly, Poulantzas has taken the debate a step further by shifting attention away from national economies as a whole and towards the performance of

38 N. Poulantzas, *Classes in Contemporary Capitalism*, pp. 42-69.

39 *Ibid.*, p. 72.

particular sectors within the national economy, notably the relationship between foreign and local capital. The other related conclusion of Poulantzas' analysis is that what is currently in crisis is not American hegemony as such, but the world economy as a whole. The crisis arises from the internationalization of capitalist relations, and is experienced *internally* within each nation-state.

Though illuminating in many respects, Poulantzas' systematic approach suffers from several defects. The first and the most obvious is the mechanistic tendency to interpret the state as a superstructure whose function is merely to represent the interests of dominant capital, whether foreign or indigenous. We shall return to this question later. Suffice it to say for the moment, the relationship between nation-states cannot be reduced to one between national capitals, nor to one between foreign and local capital within each nation-state. To this extent, the hegemony of American capital within other national economies, even if it were empirically demonstrable, need not be reflected in the hegemony of the American state. Nor can American capital be considered as a homogeneous entity either in terms of its role within the American economy or of its effects upon the European economies. Moreover, if it is true that the entire capitalist system is in crisis, then the very fact that it is internalized by each state is likely to exacerbate tensions among states, which in turn are likely to undermine the supremacy of the imperial state. Indeed, there is good reason to suggest that the crisis of world capitalism is inextricably intertwined with the decline of American power. For the American state no longer seems able to perform the stabilizing and coordinating functions which made possible the rapid development of capitalist interdependence. In this sense, the crisis of the 1970s, strikingly reflected in the decline of the dollar as the chief instrument for the international centralization of credit and the consequent abandonment of fixed exchange rates, is in no small measure an expression of the de-stabilizing transition from the politics of *hegemony* to the politics of *imperial rivalry*. The crisis has become all the more acute as a result of the Soviet-American adversary relationship and the stalemate inherent in the balance of terror, both of which contribute to the polycentric tendencies of the capitalist system. Placed within this context, the crisis of the advanced capitalist

state is the internal manifestation of the fundamental contradiction underlying the world market as a whole, namely, the contradiction between integration and fragmentation.

*Impact of Internationalization on the State*

Reference has already been made to the interdependence of national economies which arises from the international expansion of capital, but what has not yet been sufficiently stressed is the resulting politicization of international economic relations. The progressive integration of the world economy drastically increases its impact on national economic goals, while at the same time sharply reducing the efficiency of national policy instruments. Moreover, the process of economic interpenetration is experienced differently not only by different states but also by different sectors within each state, thereby benefiting some sectors and disadvantaging others. In so far as it encourages and accentuates domestic conflict, international integration threatens national disintegration.

Economic internationalization, it has been argued, increases the vulnerability of national economies by exposing them to unpredictable and potentially uncontrollable external pressures. Reference is often made to the destabilizing consequences of the enormous and increasingly frequent capital shifts. The Eurodollar market, for example, provides a source of credit outside the control of national authorities, and acts as a transmitter of changes in overseas rate structures into the domestic money market. The global monetary policies of multinational enterprises, implemented through a variety of methods, including dividends, royalty payments and transfer pricing, have often caused the movement of short-term funds in directions contrary to domestic policy, and have accentuated the crisis in the balance of national payments.<sup>40</sup>

These monetary pressures, which are a direct expression of economic transnationalism, have led several writers to stress the

40 See Lawrence B. Krause, "The International Economic System and the Multinational Corporation," *Annals of the American Academy of Political and Social Sciences*, Vol. 43, September 1972; *Multinational Corporations in World Development*, published by the Department of Economic and Social Affairs, United Nations, New York, 1973.

progressive erosion of *national sovereignty*.<sup>41</sup> They point out that the capacity for rapid, flexible, and yet centralized decision-making which is available to the global corporation with respect to the location of personnel and capital equipment, as well as the design, marketing and distribution of goods and services, makes possible the global transfer and rearrangement of information, expertise and product components to an extent beyond the reach of a territorially restricted institution such as the nation-state. Lacking the financial, technological and managerial resources of the multinational corporation, traditional instruments of national economic management are narrowly circumscribed in their range of options and made structurally dependent on foreign capital. Although the challenge of multinational enterprise is most acutely experienced in underdeveloped economies, the phenomenon, it is claimed, is universal, and threatens to displace the state as the irreducible unit of political economy.

The preceding line of argument, with its emphasis on the obsolescence of the state, may have gained increasing support from both supporters and detractors of multinational enterprise, but it provides at best a superficial description of the historical process. To begin with, although multinational production represents a new stage in the process of internationalization, the process itself is not of recent origin. As Heilbroner has incisively observed:

The internationalization of production undoubtedly leads to new problems, both for the economic production mechanism and the political control apparatus of capitalism. But that is a very different thing from asserting that the multinationals have transformed capitalism in such a way as to reduce its political-economic tension, much less to resolve it in favor of the hegemony of the internationalized company.<sup>42</sup>

The tension between business and the state is characterized as a conflict between two modes of organizing economic activity — a

41 This theme appears in the writings of numerous authors, many of them with sharply contrasting ideological persuasions. See Jean Jacques Servan-Schreiber, *The American Challenge*, translated by R. Steil (New York, 1968); Osvaldo Sunkel, "Integration capitaliste transnationale et desintegration nationale en Amerique Latine," *Politique Etrangere*, No. 6, 1970; Daniel Jay Baum, "The Global Corporation: An American Challenge to the Nation State," *Iowa Law Review*, No. 55, December 1969.

42 Robert L. Heilbroner, *Business Civilization in Decline* (Harmondsworth, 1977), pp. 75-6.

"vertical mode" based on the multinational corporation, and a "horizontal mode" based on the state. In Heilbroner's view, the situation of conflict is likely to persist for some time to come, and both modes of organization may enhance their power in the coming decades. However intense or protracted the contest between them, Heilbroner considers it unlikely that the corporation will ever develop "the quasi-religious appeal of identity offered by the national state," and predicts a strengthening of the political arm of capitalism as a direct consequence of the continued expansion of the international corporation and the need for increased planning and political control.

Heilbroner's conclusion undoubtedly conforms with the historically observable pattern of steadily increasing involvement by the state in economic life. Indeed, the integration of the world economy, which causes both cyclical and secular fluctuations to be transmitted more swiftly between national economies, reinforces the trend. As we have already observed, it is the very process of international accumulation and crisis which "consolidates the organization of the world market into nation-states."<sup>43</sup> The emergence of each economic crisis drives the state further along the road of control, particularly in conditions of increasing international competition.<sup>44</sup> The internationalization of capitalist production, it is true, once it has advanced beyond a certain point, is not necessarily tied to the fortunes of any particular state. It is nevertheless the state rather than the individual firm which shoulders the primary responsibility for maintaining the economic and political conditions necessary for the continued viability of capitalist production. In other words, in assessing the relationship between the state and the multinational corporation, account has to be taken not so much of the independent power of the large firm *vis-a-vis* the individual nation-state considered in isolation, but rather of the relationship between the world economy and the state system as a whole, that is, between a single economic division of labor and a multiplicity of sovereign states.

Only an integrated perspective can overcome the conceptual

43 See Claudia von Braunmuhl, "On the Analysis of the Bourgeois Nation State within the World Market Context," in *State and Capital*, edited by John Holloway and Sol Picciotto (London, 1978), p. 176.

44 See Bill Warren. "The Internationalization of Capital and the Nation-State: A Comment," *New Left Review*, No. 68, July–August 1971.

difficulties posed by the national origins of international capital and the international functions of the nation-state. After all, the modern metropolitan state has to relate to both local and foreign capital, just as the multinational corporation has to operate in both home and host states. While home states may have traditionally exercised greater control over multinational corporations than host states, the situation may be rapidly changing, partly as a result of the new global balance of power. The hegemonic integration of the capitalist system under American leadership may have for a time suggested a declining role for the state (or at least most states) in the regulation of international economic relations. However, to the extent that the actions of a superstate may have undermined the national instruments of policy available to other metropolitan states, the shift towards polycentrism is likely to reverse the trend. In an increasingly fragmented world economy, in which the disruptive impact of competing interests is likely to outweigh the regulatory potential of existing institutions, states will find it necessary to acquire even greater powers of economic management in the defense of "national interests," which may well involve supporting and extending the stake of domestic capital in economic or territorial spaces subject to the power of foreign states. The internationalization of capital, especially in times of stagflation and mounting international rivalry, will lead to the internalization of the crisis within the nation-state, which will, in turn, increase the functional importance of national economic management.

### *The Functions of the State*

If one accepts the view that the interpenetration of national economies extends rather than diminishes the organizational reach of the nation-state, it becomes necessary to elucidate the function of the state and its relationship to the process of inter-nationalization.

Much of the confusion with respect to the economic role of the state is, in fact, related to the widespread but mistaken conception of "state intervention," common to neo-classical and Keynesian economics. According to the neo-classical view, exemplified in recent years by the writings of Jacques Rueff and Milton Friedman, the state can neither foresee nor avoid

economic crises. It merely encourages the development of crises by obstructing the free play of market forces.<sup>45</sup> Thus, for example, social measures such as employment benefits are said to distort the mechanisms of the labor market and prevent the re-turn to equilibrium. According to this type of argument, which finds expression in a variety of forms and provides the basis for the theoretical attack on the welfare state, the Keynesian prescription for state intervention is doubly harmful, for instead of reducing public spending to the minimum, it concentrates on fiscal and financial measures which impede the primary task of monetary control. In Friedman's view, the economic crisis of 1929–30 did not result from the drastic fall in private investment but from the failure of American monetary policy. Similarly, the crisis of the 1970s is interpreted as the outcome of a misconceived policy which transformed a transitional period between two states of long-run equilibrium into a serious recession combining high levels of unemployment with high rates of inflation.

In opposition to the neo-classical argument, Keynesian economic policy, which has held sway in most capitalist countries since the Second World War, questions the existence of a true labor market, and considers the level of employment to be dependent on the level of investment.<sup>46</sup> It is, therefore, the function of the state to intervene periodically in order to offset low levels of private investment with higher rates of public spending. Keynesian principles have gained widespread acceptance, especially among social-democratic parties, which have looked upon government spending as a useful instrument for maintaining full employment and redistributing income, thereby increasing total consumption and reducing social inequalities. Though the debate between Keynesians and neo-classicists points to divergent diagnoses and prescriptions, it also highlights a fundamental notion common to both schools. In each case, economic policy is conceived in terms of "intervention" by the state as a political entity entering the economic realm in order to achieve the desired state of equilibrium. Whether one views state "intervention" as disruptive of long-run equilibrium (in the neo-classical

45 Milton Friedman, *Capitalism and Freedom* (Chicago, 1962); See also Milton Friedman and Anna Schwartz, *The Great Contraction, 1929–1933* (Princeton, 1965); Jacques Rueff, *Le Pêché monétaire de l'Occident* (Paris, 1971).

46 John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London, 1964).

perspective), or as contributing to a new and higher equilibrium (in the Keynesian perspective), in both cases economic crises are considered not intrinsic to industrial capitalism but the result of misguided intervention by the state on the one hand, or the failure of the state to intervene on the other.<sup>47</sup>

There is, however, an altogether different perspective, shared by several Marxist theorists, which considers economic crises as integral to the process of capital accumulation.<sup>48</sup> A crisis does not signify simply a break in a given equilibrium or a downturn in economic activity, but "intra-class conflict over surplus value," resulting in "a failure to realize surplus value and, therefore, profit."<sup>49</sup> From the perspective of capitalist society, the recurrence of crisis may be considered as "a feedback loop which permits readjustment to changed reproduction conditions,"<sup>50</sup> thereby overcoming the constraints internal to the dynamic of the capitalist economy.

According to Marx, the fundamental contradiction inherent in the capitalist mode of production does not arise so much from the lack of effective demand (underconsumption) as from the attempt to control wage costs, which undermines the possibility of a wider consumer demand and contradicts the goal of continued accumulation:

The real barrier of capitalist production is *capital itself*.... The capitalist mode of production is, for this reason, a historical means of developing the material forces of production and creating an appropriate world-market and is, at the same time, a continual conflict between this, its historical task, and its own corresponding relations of social production.<sup>51</sup>

In other words, the crisis of capitalist accumulation can be traced to the contradictions inherent in both the processes of production and circulation. But as already indicated, the crisis reflects

47 For an incisive critique of the liberal and Keynesian notions of "state intervention," see Suzanne de Brunhoff, "Crisse capitaliste et politique économique," in *La crise de l'Etat, sous la direction de Nicos Poulantzas* (Paris, 1976).

48 Some of these theories are reviewed in D.A. Gold, C.Y.H. Lo, and E.O. Wright, "Recent Developments in Marxist Theories of the Capitalist State," *Monthly Review*, Vol. 27, Nos. 5–6, October–November 1975.

49 John Weeks, "The Sphere of Production and the Analysis of Crisis in Capitalism," p. 289.

50 Trent Schroyer, "Marx's Theory of the Crisis," *Telos*, No. 14, Winter 1972, p. 111.

51 Karl Marx, *Capital*, Vol. III (Moscow, 1968), p. 250.

not only the obstacles to the self-expansion of capital (which finds expression in the tendency of the rate of profit to fall), but the various steps undertaken by the capitalist class to surmount these obstacles (i.e., to counteract the tendency of the rate of profit to fall). Understood in this sense, the crisis of capitalism should be equated not so much with economic recession and its various manifestations (e.g., rise in the rate of unemployment, acceleration in the rate of inflation, decline of production),<sup>52</sup> as with the fluctuation between periods of boom and periods of stagnation. The world economic crisis contains two elements: "the possibility of the recovery of capitalism and the possibility of its abolition."<sup>53</sup> Historically, it should be remembered, crisis, depression and world war have led not to the collapse but to the rebirth of capitalism. It is, indeed, an open question whether the establishment of socialist states and centrally planned economies has entailed a clear-cut or permanent contraction of the capitalist sphere of influence.

On the other hand, it is also true that with each successive crisis, the strains operating within the system are greatly accentuated. For out of each crisis emerges the potential for the realization of a greater mass of surplus value but also for much sharper inter-class and intra-class conflict, both of which require, in the interests of the system's survival, the elimination of less efficient capitals through the process of concentration and centralization. But while this trend inevitably leads to the absorption of weaker enterprises and states by larger and more powerful ones, it proceeds under stress and is characterized by a series of political and economic conflicts and convulsions.<sup>54</sup> Each major crisis represents, therefore, a springboard for the reorganization of the system as a whole and the restructuring of the national barriers within which capitalism has hitherto developed. As the opportunities for the expansion of capital shift from one sector to another, from one country to another, or even from one con-

52 The error of characterizing periods of stability and prosperity in capitalism as temporary and crises as permanent is incisively argued by Athar Hussain, "Crises and Tendencies of Capitalism," *Economy and Society*, Vol. 6, 1977, pp. 436-60. This article is essentially a review of *Late Capitalism*, by E. Mandel (1975) and *Capitalism in Crisis*, by A. Gamble and P. Walton (1976).

53 Margaret Wirth, "Towards a Critique of the Theory of State Monopoly Capitalism," *Economy and Society*, Vol. 6, 1977, pp. 307-8.

54 See John Weeks, "The Sphere of Production and the Analysis of Crisis in Capitalism," pp. 281-302.

tinent to another, powerful pressures develop in the direction of the rationalization of production and the readjustment of the social and political structures of the world economy.

From this brief analysis of the concept of crisis, it emerges that the state is, on the one hand, an agent of conflict and a contributor to the crisis, since it institutionalizes and reinforces the separation of the productive capacities of society from the men whose living labor activates them. On the other hand, the state is also one of the principal instruments used to resolve the crisis and eliminate the restrictive conditions which block the reproduction of the capitalist economy.

The state may, for example, contribute to a crisis of over-production by assisting the process of capital accumulation. But once a crash has occurred and supply has momentarily declined, the state can help to organize the political compromises which make possible the reallocation of income, thereby giving a boost to demand and allowing capital accumulation to resume its up-ward path. Similarly, a policy of controlled inflation can be seen as a mechanism for diffusing crises of overproduction and thereby preventing a dramatic collapse of economic activity.

Notwithstanding its conceptual elegance, this analysis has to be treated with caution, for it may end up interpreting economic crises as the conscious policy of the capitalist state, thereby endowing the state with a degree of political and economic mastery which it does not possess. On the other hand, it rightly points to the endogenous structural role of the state in the management of the economy and the reproduction of capitalist relations, a role which may in the long run exacerbate rather than relieve the crisis.

To begin with, it cannot be readily assumed that the increasing integration of political and economic functions implies that the state is the faithful and obedient servant of the capitalist class.<sup>55</sup> True enough, in the vast majority of advanced capitalist economies the state has assumed primary responsibility for establishing the legal conditions for property relations, for regulating the business cycle, for reproducing the labor force and ensuring the maintenance of discipline at work, for rationalizing the land market, for supplying credit and subsidies to industry, for fund-

55 See Boris Frankel, *Marxist Theories of the State: A Critique of Orthodoxy* (Melbourne, 1978).

ing scientific and technological research, for organizing energy, transport and communications systems, for maintaining social cohesion through the provision of a wide range of welfare services, and for managing the external relations of the economy. This long list of functions and activities, however, while accurately describing the expanding economic role of the state, is nevertheless analytically deficient on two related counts: its reductionist emphasis on the instrumental character of the state, and its neglect of the contradictions to which it is subjected.<sup>56</sup> For capitalist state structures do not automatically represent the interests of capitalist producers; they are also the battlefield on which are fought the economic and political antagonisms in capitalist society. The state is not the expression of the capitalist general will. The administrative and political limits of the state — not the least important of which are the imperfect information on which it bases its decisions, its ideological vacillation between intervention and non-intervention, and the often conflicting functions which it is expected to perform — all tend to invalidate the notion of the state as a mere appendage of monopoly capitalism.<sup>57</sup> On the contrary, the growing instability of capitalism, which becomes particularly acute in periods of crisis when giant financial capitals tend to eliminate their weaker brothers, compels an expanded role for the state, for it is the only institution which can act to restructure capital, rationalize competition, lessen the violence of the crisis and thereby counteract the tendency to self-destruction.

While required to provide the technocratic framework necessary for capital accumulation, the capitalist state also needs to maintain the legitimacy of this process. The accumulation and legitimation functions are translated into demands for increased state intervention, which invariably require increased state expenditures. The inability to satisfy these multifaceted and cumulative demands is described by James O'Connor as the "fiscal crisis of the state," and is explained in terms of the contradictory relationship between the monopoly, competitive and state

56 This pitfall is clearly recognized though not altogether avoided in Suzanne de Brunhoffs masterly analysis of the state's role in managing money and labor-power. See *The State, Capital and Economic Policy*, translated by Mike Sonenscher (London, 1978).

57 See Margaret Wirth, "Towards a Critique of the Theory of State Monopoly Capitalism," *Economy and Society*, Vol. 6, 1977, pp. 284-313.

sectors of the economy.<sup>58</sup> According to Jurgen Habermas, the competing demands on fiscal policy ultimately threaten a crisis of legitimacy, for the state has the dual and unenviable task of reconciling administrative efficiency with legitimation of the process.<sup>59</sup> The political conflict which inevitably surrounds the task of national economic management and the shifting political coalitions to which it gives rise indicate both the relative autonomy of the state and the severe constraints within which it operates. The need to ensure legitimation through "political abstinence" requires that the system provide suitable private rewards, whether in terms of money, leisure time or security. But to satisfy this privatism through a welfare state program is likely to exaggerate the twin problems of inflation and government spending.<sup>60</sup> Resolution of the crisis at one level may tend to displace it to another and perhaps higher level.

These limitations are equally apparent in the sphere of external policy. The nation-state, it is true, does perform essential functions for the overseas operations of domestic capital as well as for foreign capital which invests within its national boundaries. It may serve their interests through a mixture of positive inducements and negative sanctions mediated through a wide range of legal and diplomatic instruments, including tariffs, monetary and aid agreements, export credits, investment guarantees, services of commercial branches of diplomatic missions, international policing, extradition treaties, military alliances, and the establishment of regional and international organizations. Indeed, the state may use force or the threat of force to alter existing state boundaries either through secession or annexation. The state thus not only reflects the prevailing international division of labor, but may interfere directly with the flow of the factors of production, thereby altering the structure of the world market.<sup>61</sup> However, the performance of these functions is limited not so much by the territorial reach of each

58 James O'Connor, *The Fiscal Crisis of the State* (New York, 1973).

59 Jurgen Habermas, "What Does a Crisis Mean Today? Legitimation Problems In Late Capitalism," *Social Research*, Vol. 41, No. 4, Winter 1973, p. 656.

60 Habermas analyzes the crisis tendencies in advanced capitalism in relation to the economic system (economic crisis), the political system (rationality and legitimation crisis), and the socio-cultural system (motivation crisis). See Jurgen Habermas, *Legitimation Crisis* (Boston, 1975), especially Part II.

61 See Immanuel Wallerstein, *The Capitalist World Economy* (Cambridge, 1979), p. 292.

state as by domestic political and economic cleavages and the competition between antagonistic national or imperial interests.

The attempt by the state to introduce a measure of order and predictability in international economic relations, by performing a regulatory function in an otherwise anarchic world economy, is at least partly undermined by the national crisis of economic management and the political polarization which it implies. The internal "disarticulation" and heterogeneity of the nation-state thus mirrors and accentuates the fragmentation of the international capitalist system, particularly in the period of imperial rivalry.

The national bankruptcies and bank failures which occurred in 1973–74 were no doubt inextricably linked with the international monetary crisis and the collapse of the Bretton Woods system. In this sense, the conflict between domestic and foreign capital, between the different sectors of capital within each national economy, and between the different political blocs which vie for control of the state apparatus, is both national and inter-national in character. The shift towards more coercive forms of political control, reflected in the decline of parliamentary democracy and the erosion of civil liberties, together with the development of ever more sophisticated military and para-military systems of control,<sup>62</sup> expresses the internal and external responses of the state to the declining efficacy of its attempts to transform the crisis into recovery. This trend is also illustrated in the nuclear arms race, which contributes, through vertical and horizontal proliferation, to the pervasive international climate of hostility, suspicion and tension, thereby drastically accentuating the crisis of national security.<sup>63</sup> At what point the dysfunctional consequences of state action and reaction create the conditions necessary for the transformation of the system itself remains a crucial but as yet unanswered question.

### *Some Tentative Conclusions*

This article attempts to shed some light on the nature of advanced capitalism with particular reference to

62 See Dominique Chavet, "Crise de la Justice, crise de la Loi, crise de l'Etat," in *La crise de l'Etat*, sous la direction de Nicos Poulantzas (Paris, 1976).

63 See John H. Herz, *International Politics in the Atomic Age* (New York, 1959); also Kenneth Boulding, "The Role of the War Industry in International Conflict," *Journal of Social Issues*, Vol. 23, No. 1, January 1967.

the crisis of the state, which has traditionally played a central role in the process of capital accumulation. Attention has been focused on four crucial interacting relationships — namely, those between the state and the expansion of capital; those between national economic management and international economic interdependence; those between states within varying configurations of power; and those between the different and, at times, contradictory functions of the state.

A careful examination of these processes suggests that, contrary to much fashionable theorizing, the advanced capitalist state is not about to be superseded by the multinational corporation as the major actor on the world stage. Even in the periphery of the capitalist system, where the resilience of the state is perhaps weakest, the system of multinational enterprise gives little indication of being able to overcome the rising obstacles to the accumulation process. The trend applies with even greater force in the advanced sectors of the capitalist world, where economic crises are compelling metropolitan states to impose new limits of maneuver on the productive units within and beyond their borders. One may, therefore, safely forecast a state of continuing tension between the state and the multinational corporation.

In any case, the crisis of the state does not derive from the so-called challenge of the multinational corporation, which is the symptom rather than the source of the problem. The crisis of the state reflects, first and foremost, the contradiction between the declining room for maneuver available to national economies and the increasing interdependence which ties them together. Indeed, the accelerating expansion of trade and capital flows, characteristic of the most recent phase in the process of internationalization, narrows the range of national policy options, while at the same time magnifying the need for state intervention in the economy. Increasing economic interdependence enhances the economic and political functions of the state while at the same time diminishing the efficacy of its intervention. The state's predicament has become all the more acute in the wake of competing claims on its limited resources and the latent conflict between the productive and legitimizing functions. Although the state can displace crises through various processes of bargaining and can even shirk responsibility for certain crises, there are

limits to the viability of these options; conflicting priorities must somehow be reconciled if the political unity and underlying cultural cohesion of the state are to be preserved.

An additional destabilizing factor arises from the development of inter-capitalist rivalries. The increasing intervention of the American state to offset the decline of American hegemony tends to provoke actual or threatened retaliation by other metropolitan states. The trend towards European political integration and the implicit mobilization of state resources on behalf of European firms, if maintained, will assist the expansion of European capital and intensify the conflict with American capital. The gradual assertion of Japanese power in the diplomatic as well as the economic arena points in the same direction.

Paradoxically, however, polycentric tendencies within world capitalism, precisely because they fragment power and threaten the cohesion of the world economy, necessitate state planning, and, by implication, a strengthening of the national capitalist state. The resulting contradiction between an integrated capitalist system, made increasingly interdependent by the international division of labor, and a capitalist system divided between rival capitals and nation-states, is crucial to an understanding of the persistence of the national state and the crisis which confronts it. The very process of internationalization helps to internalize the disruption caused by an increasingly fragmented and polarized international system and to magnify the level of domestic conflict. The resulting threat to the national cohesion of the modern industrial state finds expression not merely in the groping efforts towards regional and international organization and, less commonly, supranational integration, but also in continuing attempts to strengthen the ideological, legal, administrative and coercive levels of the state. However, the growing evidence of ethnic, cultural, generational and political conflict, coupled with the widening gap between the promise and performance of the national economy, suggests that the imposing facade of state power and authority may conceal an increasingly complex, unmanageable and fragile edifice.

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