Special Contribution:
Interview with Giovanni Arrighi

"At Some Point Something Has To Give" – Declining U.S. Power, the Rise of China, and an Adam Smith for the Contemporary Left[1]

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Giovanni Arrighi (1937-2009) spent his life thinking and writing about what he saw on his well-traveled path: liberation movements in Africa, worker rebellion in Italy, global inequality between North and South, the military and financial limits of US power, and the economic rise of China. In his many articles and books, including an unplanned trilogy on the origins and workings of global capitalism, Arrighi grappled with the complexities of history and the limitations of existing economic and political theories. This rethinking was fully on display in his final book, Adam Smith in Beijing: Lineages of the Twenty-First Century. *Although I interviewed Arrighi on May 18, 2008, several months before the financial meltdown in global markets, his prescient statements are relevant for the crises we face today. Arrighi passed away in June 2009. His scholarly and intellectual tradition continues on at the Giovanni Arrighi Center for Global Studies at The Johns Hopkins University.*

Kevan Harris: Fareed Zakaria, in his book *The Post-American World*, says that the United States is no longer the country of "number ones." We don't have the tallest building in the world, the biggest mall, the biggest company, the biggest airplane, or even the biggest movie industry. Zakaria believes, however, this is not a world defined by the decline of America but by the rise of everyone else, or to paraphrase Alice Amsden (and Zakaria himself), what we are seeing is the "Rise of the Rest." Zakaria writes, "Billions of people are escaping from abject poverty. The world will be enriched and ennobled as they become consumers, producers, inventors, thinkers, dreamers, and doers. This is all happening because of American ideas and actions. For 60 years the United States has pushed countries to open their markets, free up their politics, and embrace trade and technology – to learn the secrets of *our* success." He goes on to say that rising protectionist and isolationist sentiments in the U.S. today go directly against this track record of success. How much truth is there in Zakaria's argument?

Giovanni Arrighi: Well, there is one element of truth there. The United States did indeed push countries to liberalize trade. And it is true that the liberalization of trade in the world, *generally*, has enabled many countries to industrialize and "modernize." However, in spite of widespread "modernization," "industrialization," etc. of "the Rest," the income gap between the North and the Rest – what used to be the Second and Third Worlds – has not been reduced much. So, on the whole, the wealthy remain wealthy, and the poor remain poor.
However, starting in the 1980s, there has been major diversification and unevenness of outcomes within the global South. Some regions have done well, most notably East

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Asia and to a lesser extent South Asia. Some regions have done very badly, experiencing social, economic, and political catastrophes – first and foremost Sub-Saharan Africa, but also Latin America in the 1980s and 1990s, and the former Soviet Union in the 1990s. So, it is true that on the whole there is not an absolute decline of the United States as much as the relative rise of certain regions. First Europe and Japan narrowed the gap in relation to the United States in the decades immediately following the Second World War, and then more recently certain regions in the global South. But this has been counterbalanced by the widening of the gap in other places.

Also, in terms of periods, one has to distinguish the 1980s and 1990s, which had been rather bad for most of the global South, and the late 1990s and early 2000s, where just within China there has been a great improvement of living conditions. Zakaria says "billions," but in fact there have been hundreds of millions of people uplifted from poverty, according to and as defined by the World Bank. But almost all of them are actually in China. So one has to look at what has happened in China and ask if China has lifted hundreds of millions of people out of poverty because it followed the advice of the United States. In my view, China has not followed that advice.

KH: Let's turn to another popular book about global development, Naomi Klein's *The Shock Doctrine*. Klein argues that free markets did not spread around the world democratically and peacefully, and that countries such as Chile, Russia, China, and most recently, Iraq, were "shocked," or subjected to rapid and severe social dislocation as a result of political or economic catastrophes. Afterwards, international and local elites subsequently reengineered these societies based on neoliberal economic principles, and through this a fusion of militarism (public and private) and market fundamentalism has pervaded the reunification of the world economy since the 1970s. This is emblematic of a more general belief on the US and European left that participation in the world market carries with it the subjugation of a country's population to the prevailing international political and economic order. There is similarity here with Zakaria's argument, except that Klein sees this as disastrous for the global South. Is this a better way to view the last 30 years?

GA: Well, this other way of viewing the last 30 years is as problematic as the first view. It is problematic because, just for the countries you mentioned, only Chile meets the characteristic of having trade liberalization and shock therapies applied by a dictatorship. In China, though it may be considered a dictatorship, it certainly did not introduce any shock therapy or rapid liberalization and privatization of the kind that was done in Chile and elsewhere. In other cases, these changes were introduced democratically. If you take the 1980s, it was a period when Latin American dictatorships were in crisis and were displaced by democratic regimes, who then often introduced these changes in the 1990s. Certainly that's also the case with the implementation of shock therapy in Russia under Yeltsin, where the country had moved from a Soviet dictatorship to a democratically elected leadership. So I think the problem with that type of characterization is that the introduction of shock therapies and neoliberal prescriptions occurred under diverse circumstances, since in many cases the neoliberal changes occurred during the shift *from* authoritarian regimes *to* parliamentary democracies.

In the case that matters most in terms of positive results – that is, China – as Joseph Stiglitz and many others have pointed out, they did not follow the prescriptions of Washington at all. They were very gradual and careful, issuing countermeasures to prevent massive unemployment, for example. So, again, if we single out China, it is a case which doesn't fit in either one of these views. In fact, there is a convergence of views, between liberals and those on the left, which claims that China followed the prescriptions that came out of Washington, whereas in fact they didn't. So, in a way, China is the exception that proves the rule that the prescriptions that came out of Washington in the 1980s and '90s were disastrous rather than beneficial.

KH: You've argued that the world has moved from a Washington consensus towards a Beijing consensus, though you certainly didn't coin those phrases yourself. What is the difference between the two, and are you saying that the rise of China as an economic power is a model that other countries can follow?

GA: Well, the Chinese themselves are very careful in not setting themselves up as a model. In some ways, the experience of China is a model in the sense that market reforms have to be introduced very cautiously, gradually, and always with other actions that counter the negative effects of liberalization. From this point of view, in a general sense it could be taken as a prescription that is antithetical and opposite to that of the Washington consensus. However, unlike the Washington consensus, the so-called Beijing consensus goes against the idea that "one size fits all." The Chinese are perfectly aware that the success of the reforms was not just due to the particular form that they took – gradualism and such – but also to an historical heritage that doesn't exist elsewhere.

For example, two legacies have been crucial in the success of the Chinese reforms. One is the revolutionary tradition that created very equal conditions in the country. China did not dispossess or destroy the peasantry, as had happened in the Soviet Union, but uplifted the peasantry through health and educational improvements, which were major achievements *before* the reforms began. So they had a large peasantry that supplied not just cheap labor but also large masses of small-scale entrepreneurship who mobilized this labor locally and translated it into the growth of the Chinese domestic market, which was crucial in generating the rates of growth that China has been experiencing.

Another important legacy was that of the late Imperial market economy that had involved peasants and artisans in widespread market exchanges but was not a capitalist market economy, in the sense that it did not lead to massive dispossession of the peasants. So these were characteristics of the labor force that were rather different than those produced by proletarianization, specialization, and divisions of labor of the kind experienced by the West. These conditions exist in China because of legacies that don't exist elsewhere, nor can they be reproduced. For example, in Southern Africa, there was an extreme dispossession of the peasantry.

So, there is an awareness that different regions of the global South have different legacies and therefore policies have to be tailored to these differences. In that way, China cannot be a model for other regions, except for that they did not follow the Washington consensus.

KH: Your most recent book is titled *Adam Smith in Beijing: Lineages of the 21st Century*. For many people on the left, Adam Smith is a dirty word, just as he is a hero for many others. Why is Adam Smith in your book title and why is he in Beijing?

GA: One reason Adam Smith is in the title is that I've been reading *The Wealth of Nations* for many years and I teach it in my classes. I've always pointed out how the liberal, or neo-liberal, readings of Adam Smith in fact find very little support in the text itself. For one thing, the idea of self-regulating markets, of the invisible hand that is supposed to govern, is clearly not to be found in *The Wealth of Nations*. What you do find is the idea that governments should use and rely on markets to rule and govern. So the *market* is the invisible hand of the *government*. Rather than rule bureaucratically, you can in many circumstances rule more effectively by organizing exchanges and divisions of labor among the citizenry and then you can just regulate these processes.

The idea that Smith is an advocate of capitalist development finds even less support in *The Wealth of Nations*, where you find lots of statements to the effect that government should make capitalists compete with one another. The idea that governments should make workers compete, to the favor of capital, is totally absent in *The Wealth of Nations*. Also, the idea that Smith is in favor of a division of labor like the one experienced in large-scale industry under so-called Taylorism, scientific management, or Fordism, is again totally absent in *The Wealth of Nations*. Smith was as aware as Karl Marx that this type of division of labor, with big units and narrow specialization, had a negative effect on the intellectual and even moral qualities of the labor force. Therefore he was in favor of another type of development that did not involve dispossession of the workers, and he had a very positive image of what we would call the peasantry, as a labor force that was capable of flexibility and self-management.

There are also two reasons that Adam Smith is in Beijing. One, in *The Wealth of Nations*, Smith was aware that the European model of "extroverted growth" -- meaning a growth that relied not so much on exports but on long distance trade such as the expansion of the European economy through chartered companies -- was less constructive or socially beneficial than a type of growth based on small units and agricultural production. In other words, instead of going from long distance trade to manufacturing to agriculture, as the direction of a process of modernization, in Smith's view the direction should have gone from agriculture to manufacturing to foreign trade. He set up two models: one that could be observed in Europe and one that could be observed in China. So Smith had a more positive view of market-based, non-capitalist development as it occurred in the East than Marx and subsequent theories of capitalist development.

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The other reason is that, though I have no evidence that Deng Xiaoping read or was inspired by the ideas in *The Wealth of Nations*, the steps taken in the Chinese reforms – the gradualism, the use of the market as an instrument of governance, the initial reforms occurring in agriculture, and then moving to industry and foreign trade, making capitalists compete amongst themselves – follow a pattern that from this point of view can be defined as "Smithian."

So on the one hand, it was the China as seen by Smith, and on the other hand, the Chinese reforms and their success, as seen through Smith, that together give us a new key for interpreting *The Wealth of Nations* – hence the title *Adam Smith in Beijing*.

KH: So, you are saying that the Chinese state makes capitalists compete, but the view that most Americans get from the media and even academics is that capitalists have a large say in Chinese affairs. Is this view completely misguided, or is it capturing some truth about the process underway in China?

GA: This is really a question of assessing what is happening in China, which is difficult because China is a huge place with many different things going on in different places at the same time. But, on the whole, I would say that, of three possible scenarios that could be posited as taking place in China, the least plausible, in my view, is that capitalists control the state. A more plausible scenario is that there is an alliance between the Communist Party, which actually controls the state, and capitalists of various kinds. First and foremost, though, the closest alliance is not with foreign Western or Japanese capital, but with Chinese diaspora capital. But I have never seen anyone convincingly argue that this diaspora capital has more power over the Communist Party than the Party has over it. So at best there is a relationship of political exchange, but not one where the diaspora controls the Party.

The third possibility, which I think is also more plausible than capitalists controlling the state, is that no one is controlling much of the state these days in China. This is because the top leadership gives directives, and is now trying to change direction, but the Party has been disintegrating in the middle ranks – the cadres have mostly gone into business – and it is difficult for the top to control. So, overall, either it is a situation where the Party controls the state and has a relationship of political exchange with diaspora capitalists and, to a lesser extent, with multinational corporations – but I don't think they actually have such a relationship with multinationals – or it is a situation where neither the capitalists nor the Communist Party controls much in terms of capabilities of directing the state. But certainly I don't see any evidence whatsoever of capitalists controlling the state in the way in which they might have in the West.

KH: This perhaps is a question of definition, then. Many on the left see the spread of markets and the presence of economic exchange as containing elements of political coercion that generally cause negative consequences for the global South. Then we have liberals, or perhaps neo-liberals, who see the expansion of markets as having good consequences overall. There are, of course, various nuances on both sides, but both see the market economy as synonymous with capitalism. They would definitely all agree on that, but I get the feeling you do not. Since the most popular critiques of neoliberalism have equated the functioning and expansion of markets with capitalism *per se*, can you elaborate on the differences?

GA: Well, yes, that's the prevalent view of markets and capitalism, but it is theoretically and politically a pretty disastrous view. The term market can be used in two different senses. One is the idea that people meet to exchange products that are different because they are generated by a division of labor among individuals, who then come to the market. The idea that you can rely on barter or various forms of central planning works for certain processes but doesn't work for others. Also, in capitalist economies, like the United States, certain sectors are thoroughly planned. The military-industrial complex is far more a centrally planned economy than a market economy. Capitalism has relied as much on planning as on markets whenever it made sense. Large corporations, for example, don't use the market for many of their transactions and instead internalize these exchanges within the organization.

So planning and the command economy is not something that necessarily relates to socialism, or to non-capitalist forms of production and exchange. I think that it is madness, then, to try to plan all exchanges in an allegedly socialist economy, because what then occurs is that the market is simply driven underground. In the Soviet Union, at one point, the goods were disappearing from the planning system and being exchanged informally in the underground economy. This continued until the Soviet collapse, and the sclerosis of economic planning led to no one planning anything, since the commodities had gone into the other economy. So it is more effective for many kinds of exchanges to be organized as market exchanges.

The issue of capitalism comes into the picture not because there is a market, since markets existed before capitalism. China is an example of a society that was a market economy that was not capitalist. Capitalism comes into the picture when two things occur. First is when capitalists occupy the commanding heights of society – the state – and, second, is when the market economy is subjected to all kinds of "creative destruction" that continually destabilizes the market economy. This is why the historian Fernand Braudel calls capitalism the "anti-market," because capitalism needs the market but at the same time prospers on the destabilization of the market, on, for example, a big disequilibrium between supply and demand that creates profitable opportunities for speculation.

Certainly, markets, when they are unregulated, tend to generate powerful capitalist strata that can then destabilize the market. But I, for one, never understood how one could organize a society on the scale of the United States, or China, or the former Soviet Union, or the world, without market exchanges. When they are the expression of cooperation among individuals who specialize in different types of activities, markets are often the most efficient form of exchange.

KH: You've startled some by pronouncing the death of neoliberalism in your book. What actually occurred in the last 30 years, which has been labeled a period of "neo-liberalism" or "market fundamentalism," and is this really over? And if it is over, what's coming next?

GA: Well, after the Second World War, there was an idea that markets have to be regulated to bring about positive results in terms of both welfare and development. Also, within theories of economic development in that period, there was room for what was called the "infant industry" argument; that is, before industries from relatively poor countries could compete they had to protect and strengthen themselves. Then, basically, during the big change that came under the name of neo-liberalism, or as some call it, a neo-liberal counter-revolution, between about 1979-1982, all of this was declared obsolete. An ideology developed that self-regulating markets were the solution both to issues of welfare and to issues of development.

The reason why this has been called a counter-revolution, and why it *was* a counter-revolution, is because those in power attempted to dismantle the welfare state. Obviously they were not successful everywhere. But they tried to dismantle developmental states and give free reign to capital movements globally, which could then take advantage of the most profitable situations wherever they appeared. Behind the idea of the "magic of the market," there was the idea of making concessions to capital by creating the most profitable conditions of investment throughout the globe. This was propagated by the infamous slogan, launched by Margaret Thatcher, that "There is No Alternative" to competition of all against all in making concessions to capital.

This was pretty disastrous for many countries and regions. It was also pretty advantageous, in the short-run, for some countries and regions, and in the longer run, for other countries and regions. In the short run, the country that benefited the most was the United States, which was in a deep crisis in the 1970s, and then took the lead in promoting financialization, thereby attracting massive amounts of capital. This enabled the US, ironically, to follow ultra-Keynesian policies of deficit financing – an increasing indebtedness of the US economy and state to the rest of the world. So, capital flew massively, more and more, to the United States and reflated its economic and political power in the world. Therefore, throughout the late 1980s and especially the 1990s there was this idea that the United States had "come back." However, all this was based on an escalating dependence of the United States on external funds. In 2007, this amounted to $2 billion every day coming in from the rest of the world to allow the United States to balance its current account – the amount it imports in excess of what it exports and consumes in excess of what it produces.

On the other hand, for many countries that had become indebted in the 1970s, all of a sudden they experienced a major drought of capital and thus a major downsizing. This was aggravated by shock therapy measures that were often introduced as a cure, but turned out to be worse than the disease, since by freeing capital movements they were enabling capitalists to move funds to the United States, worsening the balance of payments problems of these countries.

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Countries that benefited were mostly East Asian countries that had never gone into debt in the 1970s; thus they were not as vulnerable to the disruptions caused by the reorientation of global capital flows towards the United States. Also, these countries were endowed with large supplies of competitive labor, cheap but also educated and healthy. And they were endowed with large supplies of small entrepreneurship that enabled them to develop extensive subcontracting processes, making them highly competitive vis-à-vis the bureaucratic structures of the large corporations of the West. These Western corporations had to then restructure themselves to try to take advantage of these subcontracting processes in East Asia.

So there was a combination of economic disasters in some regions and economic advances in others. The end result was a United States that experienced a major resurgence of economic and political power, but was amassing a debt that was becoming less and less sustainable. And other countries were accumulating surpluses and becoming the financiers of the US debt. With this came a shift in power relations. The United States became increasingly dependent on cheap commodities and cheap credit coming from outside.

It is also true that the outside became dependent on the US market for selling their commodities. However, there is a difference between a dependence on demand and a dependence on supply, because those who are dependent on demand can reorient and create the demand internally, since they have the supply. But those who depend on external supplies are always risking that they will not be able to regenerate the supply internally – of both finance and cheap commodities. So this imbalance originally favored the United States but is shifting more and more in favor of its outside creditors, and that's where we are today.

Zakaria and others are saying: "Yes, we can adapt to this." But adapting means sharing power globally, and sharing power means accepting that you may have to subject yourself to "structural adjustment" rather than preaching it to others. It may mean that you have to give up established ways of life because they cannot be reproduced on a larger scale. High energy consumption, as it exists in the United States, cannot be reproduced globally – if China and India adopt the same patterns, they may end up choking themselves and everyone else to death. So this means that negotiations have to occur by which the US changes its way of life. Eventually, the US population may be better off, in terms of welfare. But it requires adjustment.

KH: What's more politically likely in the United States, though? That the large majority of Americans, who have not generally benefited from the last 30 years, see the changes you are describing as beneficial for them? How likely are they to willingly give up "their way of life," and perhaps more importantly, link their futures and their fortunes with the future and fortunes of people in other countries?

GA: OK, let's just take one example. Just before the 2003 Iraq War, the media tycoon Rupert Murdoch said that if the war would reduce the price of oil from $30 a barrel to $20, it would be a big gain because it would enable the American way of life to reproduce itself. That was the idea. Now, instead of falling, as of today [May 2008] the price of oil has quadrupled. So what does that mean? First, if consumption norms are not consciously transformed, for example, in a less energy-intensive direction, the market steps in and makes it expensive to stick to certain consumption norms, and people take steps later that they should have done earlier. In other words, if decisions are not going to be made consciously, anticipating market tendencies, these market tendencies will force such changes. Second, the United States does not have the power to control the world market, meaning, the world community of producers and consumers, in a way that would allow it to maintain its own consumption norms. When Bush the father went to Rio de Janeiro, at the meeting that laid the foundation for the Kyoto agreement, he said, "the American way of life is not up for negotiation." Well, the American way of life will *have* to be up for negotiation, because the United States doesn't have the power to impose it.

Now, is that going to be good or bad for the welfare of the American people? Well, that depends on a lot of things but there is no reason why it should be bad, especially for future generations. This renegotiation of consumption norms is something that is ecologically quite crucial for future generations. Moreover, the choice will have to be made between getting involved in wars like the present ones, which has had disastrous consequences for the power and welfare of the United States, or just negotiate, directly or indirectly, a new way of life. So, today people may not be prepared, but eventually one way or another they will have to, and this is not necessarily bad for the welfare of the American people.

"[The] renegotiation of consumption norms is something that is ecologically quite crucial for future generations."

KH: What struck me in your answer as problematic is that the market – global price pressure on oil, for example – will be incentive enough to transform the world economy and ways of life to, well, save us all. People probably would be skeptical of that, since as much as they rely on the market for a host of things, the market has seemed unprepared often enough in history to deal with extra-economic problems – especially with the ecological problems dominating most of the discussion these days in the United States and Europe. What about the various global governance institutions that many argue are required for tackling ecological disasters in advance of market signals, in which case it may be too late?

GA: Well, I agree that relying exclusively on market forces to solve ecological problems is madness. Negotiations and conscious agreements about what can and cannot be done to the environment will be important for changing consumption norms. But the market may help, or may hinder, the reaching of such agreements. For example, in the 1970s, when the price of oil was at today's levels, under the Carter Administration some measures were introduced to change norms for energy consumption. Then, as soon as the counter-revolution provoked a collapse in the market for oil, and the price plunged downwards, there was no incentive anymore to pursue this type of thinking and SUVs began appearing everywhere. Now, with the recent rise in the price of oil, talk about whether certain patterns of consumption are sustainable has returned. Clearly, this cannot in itself solve the problem since you have to still make decisions, but if the price of oil doubles or triples again, it will induce more people to realize that maybe we should change our habits.

Another example is that Bush the son has just visited Saudi Arabia [May 2008] and asked the Saudis to pump more oil and the Saudis said no. What does that mean? Bush would like to create the conditions for retaining US consumption patterns, but doesn't have the power to force the Saudis to accommodate. Apparently Congress wants to pass some resolution that the Saudis will not get American supplies of weapons unless they agree to pump more oil. So this is about maintaining certain consumption patterns, but the power to do so is not there anymore. At some point something has to give.

More by Giovanni Arrighi:

- *The Long Twentieth Century: Money, Power and the Origins of Our Times (New and Updated Edition).* Verso, 2010.
- *Adam Smith in Beijing: Lineages of the Twenty-First Century*. Verso, 2007.
- “The End of the Long Twentieth Century” (with Beverly Silver). In *Business As Usual: The Roots of the Global Financial Meltdown*, edited by Craig Calhoun and Georgi Derluguian. NYU Press, 2011.
- “Industrial Convergence, Globalization, and the Persistence of the North-South Divide” (with Beverly Silver and Ben Brewer). *Studies in Comparative International Development*, 2003, 38: 3-31.
- “Accumulation by Dispossession and Its Limits: The Southern Africa Paradigm Revisited” (with Nicole Aschoff and Ben Scully). *Studies in Comparative International Development*, 2010, 45: 410-438.

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