The New Debt Colonies

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We think the debt has to be seen from the standpoint of its origins. The origins of the debt arise from the origins of colonialism. Those who lend us money are the same who colonized us before. They are those who used to manage our states and economies.
– *Thomas Sankara (1987)*

God save us from the debt, and we shall be content.
– *Simón Bolívar (1825)*

Today we are witnessing the resurgence of an old phenomenon: the debt colony. A decade after the collapse the U.S. housing bubble and the onset of the worst capitalist crisis in living memory, governments around the world continue to bear the burden of historically unprecedented public debt loads. In some cases, most spectacularly in the peripheral countries of the Eurozone but also in a number of emerging markets, these mounting financial obligations have led to crippling sovereign debt crises – which have in turn impelled the dominant creditor powers to intervene aggressively on foreign bondholders' behalf, imposing highly intrusive regimes of international financial supervision on distressed borrowers in order to ensure continued debt servicing. The fiscal autonomy of Greece and Puerto Rico, in particular, has now been abolished in all but name, although similar processes have long been afoot elsewhere as well.

This contemporary experience in turn carries strong historical echoes. A century and a half ago, Karl Marx already observed how the emergence of the national debt in early-modern Europe constituted one of the "most powerful levers of primitive accumulation," leading to the "alienation of the state" by private financiers and "giving rise to stock exchange gambling and the modern bankocracy." These dynamics intensified during the Age of Imperialism in the late 19th and early 20th centuries, when the export of European and U.S. capital to the newly independent countries of Latin America and the Mediterranean added an international dimension to this long-standing process of dispossession through debt. During this period, the dominant creditor powers regularly subjected distressed sovereign borrowers to external financial control – often under force of arms. The British invasion of Egypt in 1882, the German push to establish an International Financial Commission in Greece in 1898, and the appearance of European gunboats on the Venezuelan coast in 1902 are but some of the most prominent cases in point.

Today, such long-standing processes of financial subjugation continue in a new form – through what has euphemistically come to be known as "international crisis management." Ever since the Mexican debt crisis of 1982, banks and bondholders in the wealthy creditor countries have increasingly come to rely on their own governments and international financial institutions like the IMF and World Bank to impose painful structural adjustment programs on crisis-stricken debtor countries in the developing world. Over the course of two decades, international creditors – private and official alike – went on to plunder the immense wealth of the Global South, from Argentina to Zaïre, aggressively opening up local economies to foreign capital and restructuring them in line with the neoliberal prerogatives of the Washington Consensus. The result has been a vast

flow of capital "upstream," from public hands in the global periphery to private hands in the advanced capitalist core, with developing countries transferring an estimated $4.2 trillion in interest payments to their creditors in Europe and North America since 1982, far outstripping the official-sector development aid these countries received during the same period.

In the wake of the global financial crisis, these same methods have now come to be applied on a massive scale in the capitalist heartland itself. The result has not just been a new wave of "accumulation by dispossession," but in some cases also the effective abolition of national sovereignty. When Greece's fledgling Prime Minister Alexis Tsipras was forced into a humiliating capitulation to his European creditors in the summer of 2015, for instance, an anonymous diplomat from a Germany-allied country candidly described the terms of surrender as "akin to turning Greece into an economic protectorate." In his memoirs of his brief tenure as Greece's finance minister, Yanis Varoufakis repeatedly denounces the creditors' financial intimidation tactics as an example of "latter-day gunboat diplomacy." When Poland's foreign minister was asked for the reason behind his country's refusal to join the euro, all he had to do was point south: "Greece is de facto a colony," he explained, "We don't want to repeat this scenario."

These ongoing developments raise a number of important questions about the relationship between contemporary patterns in international crisis management and Europe and America's long-standing history of financial imperialism. How different is our contemporary era really from the "era of gunboat diplomacy" in the late 19th and early 20th centuries, when the dominant creditor powers also regularly intervened in the debtors' sovereign affairs to defend bondholder interests? What are the continuities and discontinuities between the two periods? And can the hotly debated and polemical notion of imperialism still serve as a useful analytical tool to help us make sense of the current conjuncture? If so, how far can the classical Marxist theories of the phenomenon take us in elucidating the asymmetric power relations at the heart of the contemporary global political economy – and what, if anything, can be done to revamp existing theoretical frameworks to better reflect the enduring relevance of imperialism in our time?

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The Rule of Finance Capital

Hailed at the time as a landmark contribution to Marxist theory, Hilferding's classic work – *Finance Capital: A Study of the Latest Phase of Capitalist Development* (1910) – set out to uncover the deeper dynamics behind the concentration and centralization of capital, the tendency towards the formation of monopolies, trusts and cartels, the growing dependence of firms on credit, the rising importance of the banks, the ever-closer proximity between bank capital and industrial capital, the cartels' vocal demands for state intervention, and the ways in which these dynamics in turn impacted the structure of the capitalist economy, leading to monopolist demands for economic protectionism, feeding the export of capital abroad, and driving the militaristic foreign policy of imperialism that was associated with it. "The most characteristic features of 'modern' capitalism," he wrote,

> ... are those processes of concentration which, on the one hand "eliminate free competition" through the formation of cartels and trusts, and on the other, bring bank and industrial capital into an ever more intimate relationship. Through this relationship capital assumes the form of finance capital, its supreme and most abstract expression. ... No understanding of present-day economic tendencies, and hence no kind of scientific economics or politics, is possible without a knowledge of the laws and functioning of finance capital.

As bank capital becomes more concentrated and the economy ever more dependent on credit, Hilferding noted, "the power of the banks increases and they become founders and eventually rulers of industry, whose profits they seize for themselves as finance capital." In the process, "the specific character of capital is obliterated," and finance capital "now appears as a unitary power which exercises sovereign sway over the life process of society." The "latest phase" of capitalist development therefore endows private bankers with a highly con-

-centrated form of economic and political power, which they actively mobilize in order to push the state to erect protective barriers against foreign competitors and rival cartels.

At the same time, the accumulation of excess monopoly profits at home leads to a search for lucrative investment opportunities abroad, resulting in foreign investments, "which extends the economic region and the scale of production," and in turn "requires the support and active intervention of the state, in acquiring and maintaining control over the new economic areas." All of this leads to a dramatic change in the relationship of the capitalist class to state power, as the big banks that dominate national industry begin to actively sponsor a foreign policy of imperialism. Finance capital, Hilferding notes, "does not want freedom, but domination":

> It needs the state which can guarantee its domestic market through a protective tariff policy and facilitate the conquest of foreign markets. It needs a politically powerful state which does not have to take account of the conflicting interests of other states in its commercial policy. It needs also a strong state which will ensure respect for the interest of finance capital abroad, and use its political power to extort advantageous supply contracts and trade agreements from smaller states; a state which can intervene in every corner of the globe and transform the whole world into a sphere of investment for its own finance capital.

The competition for colonial acquisitions and the defense of existing territories subsequently leads to growing tensions between the capitalist powers themselves, increasing the threat of an all-out imperialist war. This point was stated even more forcefully by Nikolai Bukharin, who considered global conflict to be an inevitable outgrowth of the ascendancy of finance capital. In his Imperialism and World Economy (1918), the Bolshevik theorist set out to take Hilferding's analysis to the international level, developing what could be considered an early account of financial globalization. Bukharin reiterated that "world finance capitalism and the internationally organized domination of the banks are one of the undeniable facts of economic reality," and he stressed how the concentration and centralization of capital had produced a situation in which national economies had been transformed *"into one gigantic combined enterprise under the tutelage of the financial kings and the capitalist state."*

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Sovereign Debt and Default

During the classical imperialist era, the export of capital predominantly came in two forms: that of international loans to foreign governments (in the form of bond finance), and that of foreign direct investments (in the form of fixed capital). In the early days of global capital markets, the sale of government bonds made up the bulk of international transactions. From the 1820s onwards, as most of Latin America gained independence, powerful London-based merchant banks like the House of Rothschild and the House of Barings became active intermediaries in this process of international lending to the newly independent peripheral borrowers, underwriting the obligations of creditworthy foreign governments by stamping the latter's bonds with their family seal and undertaking to sell these debt securities to retail investors on the London Stock Exchange. Later, from the 1880s onwards, the merchant banks increasingly began to turn towards the mobilization of large sums of capital for direct foreign investments – especially fixed capital in mining, agriculture and the construction of railways, canals, telegraph lines, etc.

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In the early 20th century, as the United States took over sovereign lending to its Latin American and Caribbean neighbors from the British, the London-based financiers were gradually displaced by powerful U.S. banking houses like the Rockefellers and J. P. Morgan. Just as their British counterparts, these American "kings of finance" – or "robber barons" as they came to be known – generally did not hold foreign government bonds themselves; they simply helped "float" them, organizing their sale on the New York Stock Exchange. The actual bondholders were mostly small investors, whose dispersed nature made them much more prone to coördination problems and thus considerably less powerful than the monopolistic underwriting banks.

As a result of the speculative nature of bond finance and the relative powerlessness of small bondholders, international lending to foreign governments – the most important form of capital export for most of this period – tended to expose retail investors to a recurring risk of bankruptcy or repudiation, and sovereign default remained a widespread phenomenon throughout this period. In the first international debt crisis of the 1820s, virtually all of the newly independent Latin American borrowers and several Mediterranean countries suspended payments on their foreign debts, maintaining unilateral moratoriums on interest service that sometimes extended for up to three decades (Greece's first default of 1826 even lasted over half a century!). The economic historian Carlos Marichal writes that "default was not only inevitable but also virtually irreversible" during the 1820s: "Despite repeated efforts by envoys of European bondholders to recover their monies, all governments (with the exception of Brazil) systematically refused to resume payments."

Creditor State Intervention

How, then, did the imperialist powers respond to these recurring international debt crises and the regular episodes of sovereign default they engendered? Beside exerting diplomatic pressure on the debtor states' governments, which was the least costly and therefore favored response, creditor states could ultimately resort to three different types of imperialist intervention to safeguard the foreign investments of their national subjects: international financial control; outright military occupation; and gunboat diplomacy. While such creditor state intervention was by no means universal during the era of classical imperialism – indeed, in most cases sovereign defaults actually went unpunished – one study has found that defaulting governments faced at least a 30 percent chance of being subjected to such "super-sanctions."

Prominent examples of the first type of creditor invention include the establishment of the International Financial Commission in Greece, as well as its predecessors in Turkey (the Ottoman Public Debt Administration) and Egypt (the *Caisse de la Dette Publique*), which were analyzed at length by Rosa Luxemburg in her chapter on international loans in *The Accumulation of Capita*l. In each of these cases, the representatives of creditor states, issuing banks and/or private bondholders assumed direct administrative control over tax collection and public debt management in order to ensure maximum returns for European investors. . . . The second type of imperialist intervention – outright military occupation – was less common but nonetheless an important ultimate recourse for the leading creditor powers, especially Britain and France. . . .

Finally, the third type of creditor intervention – gunboat diplomacy – involved the use of the imperialist powers' maritime might in order to compel non-compliant borrowers to repay. The most prominent example of this method was undoubtedly the creditor response to the Venezuelan crisis of 1902–03, during which the British, German, and Italian governments answered President Cipriano Castro's refusal to honor his foreign obligations to European investors by dispatching their gunboats, blockading Venezuela's main ports, shelling its naval defenses, and occupying its custom houses to exact compensation for damages done during the preceding revolution and civil war. After several months of mounting international pressure, Castro finally relented and agreed to settle with his foreign claimants at The Hague Tribunal.

Latter-Day Gunboat Diplomacy?

How do these historical patterns of creditor intervention in sovereign debt crises – the establishment of international financial control, foreign occupation and gunboat diplomacy – compare to those of the neoliberal period? First of all, it is clear that creditors' enforcement methods have evolved in a number of important respects, shifting from a reliance on the aforementioned "super-sanctions" towards less overt forms of financial subjugation that have come to be known euphemistically under the rubric of "international crisis management." In this respect, Varoufakis' polemical invocation of the Troika's "latter-day gunboat diplomacy" actually misses the mark in analytical terms, for it is precisely the absence of military coercion that is the most striking feature of the contemporary turn towards debtor compliance.

Of course this is not to say that the use of force as such is no longer an important aspect of Western imperialism; just consider the U.S.-led wars in Iraq and Afghanistan, the NATO interventions in the former Yugoslavia and Libya, or the many proxy conflicts currently being played out from Syria and the Crimea to the Korean peninsula. There is no doubt, either, that the overwhelming firepower and worldwide reach of the U.S. military and intelligence services remain foundational to the United States' status as the world's only real superpower: from its 800+ foreign military bases to its illicit CIA detention centers, and from the hundreds of thousands of active duty troops stationed in nearly 150 foreign countries to its globally mobile fleet of aircraft carriers and remote-controlled drones, the United States' historically unrivaled military might clearly remains the ultimate foundation of its global imperialist aspirations.

When it comes to international finance, however, the enforcement of cross-border debt contracts today is a remarkably "peaceful" affair, generally working in much subtler ways than in the classical imperialist era. The real continuity in terms of imperialist methods lies not in the creditors' use of "latter-day gunboats," but in their successful institutionalization of international financial control. . . .

In a piece on "the colonial origins of the Greek bailout," historian Jamie Martin points out that the resemblance is more than just metaphorical. "The first time that an international organization oversaw a program of austerity designed to win the confidence of foreign creditors," he writes, referring to Austria's experience with hyperinflation and financial instability in the 1921, "it was precisely the experience of foreign financial control in Egypt, and in other 'debt colonies' like it, that provided a model for how that program should be designed." . . .

This interwar experience in Central Europe in turn "had a long afterlife, providing an important source of experience and expertise for the International Monetary Fund" that was established after World War II. More than anything else, it was the creation of the IMF – and, more recently, its radical neoliberalization during the international debt crisis of the 1980s – that finally served to entrench the defense of creditor interests at the international institutional level, providing an extremely effective backstop to the looming threat of sovereign default. If, today, a foreign government suddenly enters into stormy waters, international financial intervention is virtually guaranteed – anywhere, anytime – in the form of an IMF Stand-By Arrangement, or an emergency bailout loan under strict policy conditionality geared towards keeping the distressed borrower solvent while squeezing out the maximum amount of domestic revenue for foreign debt servicing.

Limits of the Classical Theories

The neoliberal era therefore shows both a set of striking similarities to and a number of important differences from the classical imperialist era. Just as a century ago, contemporary capitalism is fundamentally characterized by the ascendancy of finance and the increasingly concentrated and centralized nature of international credit markets. Unlike in Hilferding's time, however, this contemporary form of financialization has not led to the type of close permeation with industry that the original concept of "finance capital" was meant to capture. Bankers and industrialists also have not formed the kind of formal trusts and cartels that characterized the U.S. and German economies of the late 19th and early 20th centuries. Despite the active participation of several Goldman Sachs alumni in the Trump administration, Wall Street has also opposed the type of protectionist measures that predominated in the pre- and interwar period.

Most importantly, however, the rise of finance today has not led to any explicit "partitioning" of foreign markets or foreign territories by the dominant capitalist powers. Indeed, notwithstanding a few prominent but isolated exceptions, military occupation and the formal incorporation of foreign territories into the metropolitan heartland have largely ceased to be important factors in contemporary imperialism. On this score, Hardt and Negri were not entirely wrong to identify a more general, if still uneven trend towards the de-territorialization of Empire in recent decades – even if they clearly overstated their argument about the unravelling of the nation-state. In The New Imperialism, David Harvey – building on the work of Giovanni Arrighi – similarly emphasizes the growing importance of a specifically capitalist logic of power; one that fundamentally consists of the "molecular" or "capillary" processes of capital flow, which he explicitly opposes to the territorial logic of power that underpinned the old imperialism.

Today, with the resurrection of highly concentrated global financial markets and the increasingly important role of central banks, regional organizations and international financial institutions in the management of sovereign debt crises, the "non-violent" enforcement mechanisms of market discipline and conditional emergency lending have become much stronger and much more important than ever before. In this light, Harvey is right to argue that outright military interventions are ultimately but "the tip of the imperialist iceberg." Today, the creditors' preferred outcome of full debt repayment is achieved much more effectively than it ever was during the classical imperialist era, without any of the associated saber-rattling. Indeed, there has been a striking decline in the incidence of non-payment during the neoliberal era, with the share of world public debt in a state of default falling to a historic low of 0.2 percent between 2010 and 2015, even as the global financial crisis shook the public finances of the advanced capitalist states to their very core and brought the Eurozone perilously close to disintegration.

Anchoring our thinking of imperialism along another subterranean tradition, which conceives of the phenomenon not from the perspective of the imperialist state, by way of a theory of crisis formation and inevitable capitalist collapse, but rather from the perspective of the postcolonial state itself, by way of a theory of state finance and the power of capital, may help us avoid some conceptual aporias and point towards a more effective anti-imperialist politics; one that stops us from conflating struggles for emancipation and liberation with a particular state or government, and that allows us instead to conceive of imperialism as *a set of structural dependencies and asymmetric power relations between states* that are intermediated in complex ways by the "de-territorial" logic of global financial markets; the active financial interventionism of creditors states, central banks and international organizations; and the bridging role of opportunistic comprador elites inside the debtor countries themselves.

Imperialism and the State

In his introduction to the 2011 edition of Hobson's *Imperialism: A Study*, Nathaniel Mehr rightly points out the irony of the fact that "some of the most important components of the modern imperialist structure...take the form of formally consensual international agreements." This raises the question why so many postcolonial and peripheral states would "consensually" sign up to international agreements that actively undermine their national sovereignty and economic autonomy. The short answer is that many of these agreements were concluded under economic duress, in the context of a highly asymmetric global power structure, and were often actively sponsored by local elites inside these developing countries themselves; elites who, unlike most of their working-class compatriots, often stood to benefit from deeper economic integration into the capitalist world market. The neoliberal reforms of the Washington Consensus, for instance, were largely imposed by the U.S.-dominated Bretton Woods institutions in the context of the international debt crises of the 1980s and 1990s, with the active collusion of local elites.

The unsevered umbilical cord that leaves large swathes of the Global South economically reliant on their old colonial powers, even after formally attaining national independence, is the *structural dependence* of these peripheral states on foreign credit and investment, which has long been provided to them by private banks, international investors and financial institutions in the advanced capitalist countries. Subjecting the nature of this structural dependence to closer theoretical and empirical scrutiny may therefore allow us to approach the problems faced by "the new debt colonies" from a somewhat different angle, enabling us to better understand the more subtle contemporary forms of financial subjugation operating at the structural and institutional level that serve to reproduce these deeply entrenched international power asymmetries over time, even in the absence of territorial control or outright military intervention.

An inquiry into this dependence on foreign credit and investment ultimately leads us back to the problem of the **capitalist state**. Unfortunately, since Marx did not live to write the book on the state that he had originally envisioned as part of his six-volume outline for *Capital*, and since post-war Marxist state theory – both in Miliband's "instrumentalist" approach and in Poulantzas' "structuralist" framework – generally skipped over the key question of **public finance**, there remains a substantial gap in Marxist theorizing when it comes to the

been able to engage in the type of Keynesian deficit spending that underpinned the rapid growth of the postwar period and that allowed for the creation of complex bureaucratic welfare states, where public expenditures do not always coincide with tax collection. Access to credit, then, allows not only for "temporal smoothing" between alternating periods of expenditure and income, but also enables the state to engage in more long-term public investments – in areas such as infrastructure and education – that do not yield immediate returns and for which the state does not currently have sufficient resources on hand.

The obverse side of the coin, however, is that a rising public debt tends to constrain the state's relative autonomy from its private financiers, imposing certain limits on the room for maneuver available to government. In the case of the advanced capitalist states, this dependence is mostly on their own creditor class, as the lion's share of their national debt tends to be held domestically. In the case of the younger capitalist states, however, where financial markets are not as well developed, this dependence has long tended to be on foreign creditors, adding an additional layer of international dependence that forms the bedrock of the asymmetric power relations between creditor states and debtor states in the global political economy. It is this structural dependence on foreign sources of credit that compels peripheral borrowers to honor their international obligations and live up to the letter of their financial commitments, lest they suffer the crippling economic consequences of a complete cut-off of foreign financing, in the absence of which their prospects of economic development would be severely constrained.

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Beyond the Politics of National Liberation

This, then, would appear to be the crux of financial imperialism during the neoliberal era. It is ultimately the dependence of postcolonial and peripheral states on foreign credit and investment – a dependence that has grown increasingly acute with the globalization and financialization of the capitalist world economy since the 1980s – that endows the big banks, foreign investors and financial institutions with immense structural power over their vulnerable sovereign borrowers. Under conditions of economic duress, these foreign creditors can push through even the most brutally exploitative austerity measures, neoliberal reforms and privatization programs – ensuring full repayment for creditors while prying open new markets for global capital – without so much as a hint of physical violence. For the debtor countries, the alternative is to face the debilitating consequences of a foreign credit embargo and capital strike, which – as we saw in the wake of Greece's anti-austerity referendum in the summer of 2015 – would risk crippling domestic industries and have devastating knock-on effects on the national economy.

In short, the explosive power of financial imperialism today resides not in the gun turrets of the creditors' war ships, but in the investment portfolios of the powerful Wall Street banks and the Excel spreadsheets of the odorless technocrats charged with administering fiscal austerity and international financial control. The classical theorists of imperialism were therefore wrong to believe that finance capital, as Hilferding put it, marked "the climax of the dictatorship of the magnates of capital." Speaking purely from their own historical vantage point, this observation made sense. But the classical theorists had no idea what was coming. Today, the structural power of finance has reached previously unimaginable heights. If national liberation – i.e., the push for formal independence through the creation of a new sovereign state – still seemed to offer a way out of the territorial domination of the imperialist powers in Lenin's time, it clearly no longer does so today. The logic of imperialist power and the methods of financial subjugation have changed. So must the struggles against it.

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Ultimately, the only way to begin dismantling imperialist relations of domination and truly liberate the new debt colonies from their economic subjugation is for the working classes and social movements of both the debtor and the creditor countries to become aware of their shared interest in building a unified front against the impositions of global finance. As Thomas Sankara so cogently put in his famous debt speech at the Organization of African Unity conference in Addis Ababa in 1987, just months before his assassination, "the popular masses of Europe are not opposed to the popular masses of Africa. Those who want to exploit Africa are the same ones as those who exploit Europe. We have a common enemy." It is high time for the left in the imperialist heartland to heed those words and begin acting upon that fundamental reality.