

Capitalism and world (dis)order

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A sea change of major proportions is taking place in the historical social system forming the modern world, creating a widespread sense of uncertainty about the present and foreseeable future. In the words of Eric Hobsbawm, as ‘the citizens of the *fin de siècle* tapped their way through the global fog that surrounded them, into the third millennium, all they knew for certain was that an era of history had ended. They knew very little else’.¹

Yet even the era of history that has ended is the subject of debate. For Hobsbawm the 1970s and 1980s were the closing phase of his Short Twentieth Century (1914–1991). In his view, the collapse of communist regimes ‘destroyed the ... system that had stabilized international relations for some forty years. ... and revealed the precariousness of the domestic political systems that had essentially rested on that stability’. The result was ‘an enormous zone of political uncertainty, instability, chaos and civil war. ... The future of politics was obscure, but its crisis at the end of the Short Twentieth Century was patent’.²

In Hobsbawm’s view, the late-twentieth century also marks a crisis of the rationalist and humanist assumptions, shared by liberal capitalism and communism, ‘on which modern society had been founded since the Moderns won their famous battle against the Ancients in the early eighteenth century’.³ In a similar vein, Immanuel Wallerstein has claimed that the year 1989 marks the end of the particular politico-cultural era launched by the Enlightenment and the French Revolution. For Wallerstein, however, it also marks the beginnings of a terminal crisis of the modern world system that came into existence in the ‘long sixteenth century’.⁴ Starting from different premises, James Rosenau concurs with this assessment. In his view, the parameters that have framed action in the international system are being transformed so fundamentally today ‘as to bring about the first turbulence in world politics since comparable shifts culminated in the Treaty of Westphalia in 1648’.⁵

Whatever era of history is thought to be ending—the Cold War era, or the longer era of ‘liberalism’ and the Enlightenment, or the even longer era of the system of

¹ Eric J. Hobsbawm, *The Age of Extremes: A History of the World, 1914–1991* (New York: Vintage, 1994), pp. 558–9.

² Hobsbawm, *The Age of Extremes*, pp. 9–11.

³ *Ibid.*, p. 11.

⁴ Immanuel Wallerstein, *After Liberalism* (New York, The New Press, 1995), pp. 1, 268; Immanuel Wallerstein, ‘Crisis as Transition’, in S. Amin, G. Arrighi, A. G. Frank, and I. Wallerstein, *Dynamics of Global Crisis* (New York: Monthly Review Press, 1982), p. 11.

⁵ James N. Rosenau, *Turbulence in World Politics: A Theory of Change and Continuity* (Princeton, NJ, Princeton University Press, 1990), p. 10.

national states—these authors argue that structures that had provided for some predictability are breaking down and that a trend towards uncertainty and unpredictability is likely to characterize the present and foreseeable future.

Systemic cycles of accumulation and hegemonic transitions

Our attempts to dissipate at least some of the ‘global fog’ that surrounds us as we enter the third millennium and to narrow the range of uncertainty and unpredictability about the present and foreseeable future⁶ is premised on three closely related observations. The first observation is that the beginning and the end of the twentieth century are broadly comparable periods, with the centrality of ‘finance capital’ being one of the crucial common denominators between the two periods.⁷ The second observation is derived from Fernand Braudel’s argument that this financialization of capital has been a recurrent feature of historical capitalism since the sixteenth century. Our third observation is that periods of financial expansion are not just an expression of cyclical processes of historical capitalism—as emphasized by Braudel; rather they also have been periods of major reorganizations of the world capitalist system—what we call hegemonic transitions. We shall discuss each of these three observations in turn in the remainder of this section.⁸

The centrality of finance capital at the end of the nineteenth and beginning of the twentieth century gave rise to liberal and Marxist theories of ‘finance capital’ and ‘imperialism’, which saw this phenomenon as signalling a new, unprecedented or highest stage of capitalism.⁹ At the end of the twentieth century, the renewed cen-

⁶ Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Time* (London: Verso, 1994); Giovanni Arrighi and Beverly J. Silver, et al., *Chaos and Governance in the Modern World System* (Minneapolis, MN: University of Minnesota Press, 1999); Giovanni Arrighi and Beverly J. Silver, ‘Hegemonic Transitions: A Rejoinder’, *Political Power and Social Theory*, 13 (1999), pp. 307–15.

⁷ This is a fairly widely noted observation; see, among others, David Gordon, ‘The Global Economy: New Edifice or Crumbling Foundations?’ *New Left Review*, 168 (1988), pp. 24–65; Robert Zevin, ‘Our World Financial Market is More Open? If So, Why and With What Effect?’ in T. Banuri and J.B. Schor (eds.), *Financial Openness and National Autonomy: Opportunity and Constraints* (New York, Oxford University Press, 1992); David Harvey, ‘Globalization in Question’, *Rethinking Marxism*, 8: 4 (1995), pp. 1–17. Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance* (Cambridge: Polity Press, 1996).

⁸ One point of clarification about the scope of our analysis is in order. Most accounts of capitalist development have been based on observations and conceptual frameworks that refer implicitly or explicitly to national dynamics. This is a perfectly legitimate and useful way of analysing capitalist development, provided that we do not conflate the dynamic of capitalist development as it unfolds in specific national (or sub-national) locales with the dynamic of capitalist development as it unfolds in a ‘world’ consisting of a large number and variety of such locales. Although these two dynamics influence one another, each has a logic of its own and must be treated as an object of analysis in its own right. Our premise in this article is that the world dynamic of capitalist development is something more and different than the ‘sum’ of national dynamics. It is something that can be perceived only if we take as the unit of analysis, not individual states, but the *system* of states in which world capitalism has been embedded.

⁹ John Hobson, *Imperialism: A Study* (London: George Allen & Unwin, 1938 [1902]). Rudolf Hilferding, *Finance Capital: A Study of the Latest Phase of Capitalist Development* (London: Routledge and Kegan Paul, 1981 [1910]). Nikolai Bukharin, *Imperialism and World Economy* (New York: Monthly Review Press, 1973 [1915]); V.I. Lenin, ‘Imperialism: The Highest Stage of Capitalism’, in *Selected Works*, vol. I (Moscow: Foreign Languages Publishing House, 1952. [1916]).

trality of finance capital has given rise to theories of ‘globalization’ and ‘financialization of capital’, which likewise see the present as a new and unprecedented phase of capitalist development.¹⁰ The language and concepts have changed but the idea that finance capital constitutes a new, latest, highest phase/stage in the development of capitalism is at least as widely held today as it was a century ago. This recurrence of a discourse in which finance capital is presented as a new, latest, highest stage of capitalist development, we would argue, is in part an outcome of methods of analysis whose time horizon is too short to detect a long-term cyclical dynamic within historical capitalism.

This brings us to our second observation. As Fernand Braudel underscored, early-twentieth-century characterizations that portrayed finance capital as a new phase of capitalist development were shortsighted. ‘Finance capitalism’, he noted, ‘was no newborn child of the 1900s; I would even argue that in the past—in say Genoa or Amsterdam—*following a wave of growth in commercial capitalism and the accumulation of capital on a scale beyond the normal channels for investment*, finance capitalism was already in a position to take over and dominate, for a *while at least*, all the activities of the business world.’¹¹

The idea that long before the early twentieth century the accumulation of capital through the purchase and sale of commodities ‘on a scale beyond the normal channels for investment’ enabled finance capitalism ‘to take over and dominate, for a while at least, all the activities of the business world’, is a recurrent theme of the second and third volumes of Braudel’s trilogy *Civilization and Capitalism*. It underlies Braudel’s contention that the essential feature of historical capitalism over its *longue durée*, that is, over its entire lifetime, has been the ‘flexibility’ and ‘eclecticism’ of capital rather than the concrete forms it assumed at different places and at different times. In certain periods, even long periods, capitalism did seem to ‘specialize’, as in the nineteenth century, when ‘[it] moved so spectacularly into the new world of industry’. This specialization led many ‘to regard industry as the final flowering which gave capitalism its “true” identity’. But this is a short-term view. ‘[After] the initial boom of mechanization, the most advanced kind of capitalism reverted to eclecticism, to an indivisibility of interests so to speak, as if the characteristic advantage of standing at the commanding heights of the economy ... consisted precisely of *not* having to confine oneself to a single choice, of being eminently adaptable, hence non-specialized’.¹²

These passages can be read as a restatement of Karl Marx’s general formula of capital, MCM’. Money capital (M) means liquidity, flexibility, freedom of choice. Commodity capital (C) means capital invested in a particular input-output combination in view of a profit. Hence, it means concreteness, rigidity, and a narrowing down or closing of options. M’ means *expanded* liquidity, flexibility and freedom of choice. Thus understood, Marx’s formula tells us that capitalist agencies invest

¹⁰ See among others, Andrew Walter, *World Power and World Money: The Role of Hegemony and International Monetary Order* (New York: St. Martin’s Press, 1991). Erik R. Peterson, ‘Surrendering to Markets’, *The Washington Quarterly*, 17: 4 (1995), pp. 103–15. Manuel Castells, *The Rise of the Network Society*, 2nd edn. (Oxford: Blackwell, 2000).

¹¹ Fernand Braudel, *Civilization and Capitalism, 15th-18th Century*, vol. III: *The Perspective of the World* (New York, Harper & Row, 1984), p. 604; emphasis added.

¹² Fernand Braudel, *Civilization and Capitalism, 15th-18th Century*, vol. II: *The Wheels of Commerce* (New York: Harper & Row, 1982), p. 381; emphasis in the original; translation amended as indicated in Immanuel Wallerstein, *Unthinking Social Science* (Cambridge: Polity Press, 1991) p. 213.

money in particular input-output combinations, with all the loss of flexibility and of freedom of choice that goes with it, not as an end in itself. Rather, they do so as a *means* towards the end of securing an even greater flexibility and freedom of choice at some future point in time. Marx's formula also tells us that, if there is no expectation on the part of capitalist agencies that their freedom of choice will increase, or if this expectation goes unfulfilled systematically, capital *tends* to revert to more flexible forms of investment, first and foremost to its money form. In other words, the 'preference' of capitalist agencies for liquidity increases and an unusually large share of their cash flows tends to remain in liquid form.

This second reading is implicit in Braudel's characterization of 'financial expansion' as a symptom of maturity of a particular phase of capitalist development. In discussing the withdrawal of the Dutch from commerce around 1740 to become 'the bankers of Europe', Braudel suggests that this withdrawal is a recurrent world-systemic tendency. The same tendency had already been in evidence in fifteenth-century Italy, and again around 1560, when the leading groups of the Genoese business diaspora gradually withdrew from commerce to exercise for about seventy years a rule over European finances comparable to that exercised in the twentieth century by the Bank of International Settlement at Basle—'a rule that was so discreet and sophisticated that historians for a long time failed to notice it'. After the Dutch, the English replicated the tendency during and after the Great Depression of 1873–96, when the end of 'the fantastic venture of the industrial revolution' created an overabundance of money capital.¹³

After the equally 'fantastic venture' of so-called Fordism-Keynesianism, US capital since the 1970's has followed a similar trajectory. We can easily recognize in this latest 'rebirth' of finance capital yet another instance of that recurrent reversal to 'eclecticism' which in the past has been associated with the maturity of a major capitalist development. '[Every] capitalist development of this order seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: it [is] a *sign of autumn*'.¹⁴

In the light of these observations, we may interpret Marx's general formula of capital (MCM') as depicting, not just the logic of individual capitalist investments, but also a recurrent pattern of historical capitalism as world system. The central aspect of this pattern is the alternation of epochs of material expansion (that is, MC phases of capital accumulation) with phases of financial rebirth and expansion (that is, CM' phases). In phases of material expansion money capital 'sets in motion' an increasing mass of commodities (commoditized labour power and gifts of nature included); and in phases of financial expansion an increasing mass of money capital 'sets itself free' from its commodity form and accumulation proceeds through financial deals (as in Marx's abridged formula MM'). Taken together, the two epochs or phases constitute a full *systemic cycle of accumulation* (MCM').

Starting from these premises, we can identify four systemic cycles of accumulation: a Genoese-Iberian cycle, stretching from the fifteenth through the early seventeenth centuries; a Dutch cycle, stretching from the late sixteenth through the late eighteenth centuries; a British cycle, stretching from the mid eighteenth through to the early twentieth centuries; and a US cycle, stretching from the late nineteenth

¹³ Braudel, *Civilization and Capitalism*, vol. III, pp. 157, 164, 242–3, 246.

¹⁴ *Ibid.*, vol. III, p. 246, emphasis added.

through the current phase of financial expansion. Each cycle is named after (and defined by) the particular complex of governmental and business agencies that led the world capitalist *system*, first towards the material and then towards the financial expansions that jointly constitute the cycle. The strategies and structures through which these leading agencies have promoted, organized, and regulated the expansion or the restructuring of the world capitalist system is what we shall understand by 'regime of accumulation' on a world scale.

Our third observation is that the recurrence of system-wide financial expansions is not just the expression of 'a certain unity in capitalism, from thirteenth-century Italy to the present-day West', as Braudel claims.¹⁵ It is also the expression of recurrent fundamental reorganizations of the world capitalist system. This is why, as the above periodization implies, consecutive systemic cycles of accumulation overlap with one another at their beginnings and ends. All phases of financial expansion have indeed been the 'autumn' of major developments of world capitalism. But they have also been periods of *hegemonic transition*, in the course of which a new leadership emerged interstitially and over time reorganized the system so as to make its further expansion possible.

Far from proceeding along a single track laid some four to five hundred years ago—as Wallerstein implies¹⁶—the formation and expansion of the world capitalist system has thus occurred through several switches to new tracks laid by specific complexes of governmental and business agencies. These leading complexes—the Dutch complex in the seventeenth century, the British complex in the nineteenth century, and the US complex in the twentieth century—have all acted as 'tracklaying vehicles' (to borrow an expression from Michael Mann).¹⁷ In leading the system in a new direction, they also transformed it. Under Dutch leadership, the emergent system of European states was formally instituted by the Treaties of Westphalia. Under British leadership, the Eurocentric system of sovereign states moved to dominion globally. And under US leadership, the system lost its Eurocentricity to gain further in reach and penetration.

We have laid out in detail the historical underpinnings of these conceptualizations in two studies, one focused on the reconstruction of the four systemic cycles of accumulation¹⁸ and one on a comparison of present transformations of world capitalism with those of two previous periods of hegemonic transition—the transition from Dutch to British hegemony in the eighteenth century and the transition from British to US hegemony in the late-nineteenth and early-twentieth centuries.¹⁹ In what follows, we shall limit ourselves to elucidating the logic and mechanisms that underlie the dynamics of the cycles and the transitions. First we deal with the cycles and the evolutionary pattern that can be detected from their succession. Then we turn to the hegemonic transitions and to what they can tell us about the direction and possible outcomes of present transformations.

¹⁵ *Ibid.*, vol. II, p. 433.

¹⁶ Immanuel Wallerstein, *The Politics of the World-Economy: The States, the Movements and the Civilizations* (Cambridge, Cambridge University Press, 1984), esp. ch. 4.

¹⁷ Michael Mann, *The Sources of Social Power*, vol. I: *A History of Power from the Beginning to AD 1760* (Cambridge: Cambridge University Press, 1986), p. 28. Cf. Peter Taylor, 'Ten Years that Shook the World? The United Provinces as First Hegemonic State', *Sociological Perspectives*, 37: 1 (1994), p. 27.

¹⁸ Arrighi, *The Long Twentieth Century*.

¹⁹ Arrighi and Silver, et al., *Chaos and Governance*.

Financial expansions and the evolution of world capitalism

Material and financial expansions are both processes of the world capitalist system—a system that has increased in scale and scope over the centuries but has encompassed from its earliest beginnings a large number and variety of governmental and business agencies. Material expansions occur because of the emergence of a particular bloc of governmental and business agencies capable of leading the system towards wider or deeper divisions of labour that create conditions of increasing returns to capital invested in trade and production. Under these conditions profits tend to be ploughed back into the further expansion of trade and production more or less routinely, and knowingly or unknowingly, the system's main centres co-operate in sustaining one another's expansion. Over time, however, the investment of an ever-growing mass of profits in the further expansion of trade and production inevitably leads to the accumulation of capital 'on a scale beyond the normal channels for investment', as Braudel put it, or as we would say, over and above what can be reinvested in the purchase and sale of commodities without drastically reducing profit margins. Decreasing returns set in, competitive pressures intensify, and the stage is set for the change of phase from material to financial expansion.

In this progression from increasing to decreasing returns, from co-operation to competition, the relevant organizational structures are not those of the units of the system but those of the system itself. Thus, with specific reference to the latest, US cycle, the relevant organizational structures are not merely those of the vertically-integrated, bureaucratically-managed corporations, which were only one component of the bloc of governmental and business agencies that led world capitalism through the material expansion of the 1950s and 1960s. Rather, they are the organizational structures of the Cold War world order in which the expansion was embedded. As the expansion unfolded, it generated three closely related tendencies that progressively undermined the capacity of those structures to sustain the expansion: the tendency of competitive pressures on US corporations to intensify; the tendency of subordinate groups to claim a larger share of the pie; and the tendency of US corporations to hoard the profits of the material expansion in extra-territorial financial markets. Already in evidence in the late 1960s and early 1970s, these were the tendencies that triggered the change of phase from material to financial expansion.²⁰

As Robert Pollin has pointed out, the idea of recurrent and protracted phases of financial expansion poses a basic question: 'Where do the profits come from if not from the production and exchange of commodities?' As he suggests, this question has three possible answers, each pointing to a different source of profits. First, some capitalists are making money at the expense of other capitalists so that there is a redistribution of profits within the capitalist class. Second, profits for the capitalist class as a whole expand because financial deals enable capitalists to force a redistribution of wealth and income in their favour. Finally, 'financial deals can be profitable on a sustained basis ... if [they enable] capitalists to move their funds out of less profitable and into more profitable areas of production and exchange'.²¹

²⁰ Arrighi, *The Long Twentieth Century*, ch. 4; Arrighi and Silver, et al., *Chaos and Governance*, pp. 211–16.

²¹ Robert Pollin, 'Contemporary Economic Stagnation in World Historical Perspective,' *New Left Review*, 219 (1996), pp. 115–16.

In our conceptualization of financial expansions, each of these three sources of profitability plays a distinct role. The first source provides the link between the crises of over-accumulation that signal the end of material expansions and the financial expansions that follow. Thus, at the onset of each financial expansion ‘an over-accumulation of capital leads capitalist organizations to invade one another’s spheres of operation; the division of labour that previously defined the terms of their mutual co-operation breaks down; and, increasingly ... competition turns from a positive-sum into a zero-sum (or even a negative-sum) game’.²² In and by itself, this source of profits does not provide a plausible explanation of the long periods of financial expansion—longer, as a rule, than half a century—that have intervened between the end of every phase of material expansion and the beginnings of the next. Nevertheless, cut-throat competition among capitalist agencies consolidates what we may call the ‘supply’ conditions of sustained financial expansions. That is to say, by accentuating the overall tendency of profit margins in trade and production to fall, it strengthens the disposition of capitalist agencies to keep in liquid form a growing proportion of their incoming cash flows.

Sustained financial expansions materialize only when the enhanced liquidity preference of capitalist agencies is matched by adequate ‘demand’ conditions. Historically, the crucial factor in creating the demand conditions of all financial expansions has been an intensification of interstate competition for mobile capital—a competition that Max Weber called ‘the world-historical distinctiveness of [the modern] era’.²³ The occurrence of financial expansions in periods of particularly intense interstate competition for mobile capital is no mere historical accident. Rather, it can be traced to the tendency of territorial organizations to respond to the tighter budget constraints that ensue from the slowdown in the expansion of trade and production by competing intensely with one another for the capital that accumulates in financial markets. This tendency brings about massive, system-wide redistributions of income and wealth from all kinds of communities to the agencies that control mobile capital, thereby inflating and sustaining the profitability of financial deals largely divorced from commodity trade and production (Pollin’s second source of financial profits). All the *belle époques* of finance capitalism—from Renaissance Florence to the Reagan and Clinton eras—have been characterized by redistributions of this kind.²⁴

Finally, Pollin’s third source of financial profit—the reallocation of funds from less to more profitable areas of material production and exchange—comes into the picture, not as a critical factor in making financial deals profitable on a sustained basis, but as a factor in the *supersession* of financial expansions by a new phase of material expansion. Particularly illuminating in this connection is Marx’s observation that the credit system has been a key instrument, both nationally and internationally, of the transfer of surplus capital from declining to rising centres of capitalist trade and production. Since Marx’s core argument in *Capital* abstracts from the role of states in processes of capital accumulation, national debts and the

²² Arrighi, *The Long Twentieth Century*, p. 227.

²³ Max Weber, *Economy and Society* (Berkeley, CA: California University Press, 1978), p. 354; see also Max Weber, *General Economic History* (New York, Collier, 1961), p. 249.

²⁴ Arrighi, *The Long Twentieth Century*; Arrighi and Silver, et al., *Chaos and Governance*, especially ch. 3.

alienation of the assets and future revenues of states are dealt with under the rubric of ‘primitive accumulation’, that is, ‘an accumulation not the result of the capitalist mode of production, but its starting point’.²⁵ This conceptualization prevented Marx from appreciating, as Weber did, the continuing historical significance of national debts in a world capitalist system embedded in states continually competing with one another for mobile capital. Nevertheless, Marx did acknowledge the continuing significance of national debts, not as an expression of interstate competition, but as means of an ‘invisible’ inter-capitalist co-operation that ‘started’ capital accumulation over and over again across the space-time of the world capitalist system from its inception through his own days:

With the national debt arose an international credit system, which often conceals one of the sources of primitive accumulation in this or that people. Thus the villainies of the Venetian thieving system formed one of the secret bases of the capital-wealth of Holland to whom Venice in her decadence lent large sums of money. So was it with Holland and England. By the beginning of the 18th century. ... Holland had ceased to be the nation preponderant in commerce and industry. One of its main lines of business, therefore, [became] the lending out of enormous amounts of capital, especially to its great rival England. [And the] same thing is going on to-day between England and the United States.²⁶

Marx never developed the theoretical implications of this historical observation. In spite of the considerable space dedicated to ‘money-dealing capital’ in the third volume of *Capital*, he never rescued national debts and the alienation of the state from their confinement to the mechanisms of an accumulation that is ‘not the result of the capitalist mode of production but its starting point’. And yet, in his own historical observation, what appears as a ‘starting point’ in one centre (Holland, England, the United States) is at the same time the ‘result’ of long periods of capital accumulation in previously established centres (Venice, Holland, England). To use Braudel’s imagery, each and every financial expansion is simultaneously the ‘Autumn’ of a capitalist development of world-historical significance that has reached its limits in one place and the ‘Spring’ of a development of even greater significance that is about to begin in another place.

The similar dynamic of systemic cycles of accumulation—each consisting of the emergence of a new regime in the course of the financial expansion of an old regime—makes the cycles comparable with one another. But as soon as we compare the agencies, strategies and structures of successive cycles, we discover, not only that they are different, but also that the sequence of these differences describes an evolutionary pattern towards regimes of increasing size, scope and complexity. The first column of Figure 1 sums up this evolutionary pattern, focusing on the ‘containers of power’—as Anthony Giddens²⁷ has aptly characterized states—that have housed the ‘head-quarters’ of the leading capitalist agencies of the successive regimes: the Republic of Genoa, the United Provinces, the United Kingdom, and the United States.

At the time of the rise and full expansion of the Genoese regime, the Republic of Genoa was a city-state small in size and simple in organization, which contained very little power indeed. Deeply divided socially, and rather defenceless militarily, it

²⁵ Karl Marx, *Capital*, vol. I (Moscow: Foreign Languages Publishing House, 1959), pp. 713, 754–5.

²⁶ Marx, *Capital*, vol. I, pp. 755–6.

²⁷ Anthony Giddens, *The Nation-State and Violence* (Berkeley, CA: University of California Press, 1987).

Leading governmental organization	Regime type/cycle		Costs internalized			
	Extensive	Intensive	Protection	Production	Transaction	Reproduction
World-state						
↑			Yes	Yes	Yes	No
		US			↑	
	British		Yes	Yes	No	No
Nation-state				↑		
↑			Yes	No	No	No
		Dutch				
	Genoese		↑			
City-state			No	No	No	No

Figure 1. Evolutionary patterns of world capitalism.

was by most criteria a weak state in comparison with and in relation to all the great powers of the time, among which its old rival Venice still ranked fairly high. Yet, thanks to its far-flung commercial and financial networks the Genoese capitalist class, organized in a cosmopolitan diaspora, could deal on a par with the most powerful territorialist rulers of Europe, and turn the relentless competition for mobile capital among these rulers into a powerful engine for the self-expansion of its own capital.²⁸

At the time of the rise and full expansion of the Dutch regime of accumulation, the United Provinces was a hybrid kind of organization that combined some of the features of the disappearing city-states with some of the features of the rising nation-states. A larger and far more complex organization than the Republic of Genoa, the United Provinces ‘contained’ sufficient power to win independence from Imperial Spain, to carve out of the latter’s sea-borne and territorial empire a highly profitable empire of commercial outposts, and to keep at bay the military challenges of England by sea and France by land. This greater power of the Dutch state relative to the Genoese enabled the Dutch capitalist class to do what the Genoese had already been doing—turn interstate competition for mobile capital into an engine for the self-expansion of its own capital—but without having to ‘buy’ protection from territorialist states, as the Genoese had done through a relationship of political exchange with Iberian rulers. The Dutch regime, in other words,

²⁸ Arrighi, *The Long Twentieth Century*, pp. 109–32, 145–51.

‘internalized’ the protection costs that the Genoese had ‘externalized’ (see Figure 1, column 4).²⁹

At the time of the rise and full expansion of the British regime of accumulation, the United Kingdom was not only a fully developed nation-state. It was also in the process of conquering a world-encompassing commercial and territorial empire that gave its ruling groups and its capitalist class a command over the world’s human and natural resources without parallel or precedent. This command enabled the British capitalist class to do what the Dutch had already been able to do—turn to its own advantage interstate competition for mobile capital and ‘produce’ all the protection required by the self-expansion of its capital—but without having to rely on foreign and often hostile territorialist organizations for most of the agro-industrial production on which the profitability of its commercial activities rested. If the Dutch regime relative to the Genoese had internalized protection costs, the British regime relative to the Dutch internalized production costs as well (see Figure 1, column 5).³⁰

Finally, at the time of the rise and full expansion of the US regime of accumulation, the US was already something more than a fully developed nation-state. It was a continental military-industrial complex with sufficient power to provide a wide range of subordinate and allied governments with effective protection and to make credible threats of economic strangulation or military annihilation towards unfriendly governments anywhere in the world. Combined with the size, insularity, and natural wealth of its domestic territory, this power enabled the US capitalist class to internalize not just protection and production costs—as the British capitalist class had already done—but transaction costs as well, that is to say, the markets on which the self-expansion of its capital depended (see Figure 1, column 6).³¹

This steady increase in the size, scope and complexity of successive regimes of capital accumulation on a world scale is somewhat obscured by another feature of the temporal sequence of such regimes. This feature is a double movement, forward and backward at the same time. For each step forward in the process of internalization of costs by a new regime of accumulation has involved a revival of governmental and business strategies and structures that had been superseded by the preceding regime.

Thus, the internalization of protection costs by the Dutch regime in comparison with the Genoese regime occurred through a revival of the strategies and structures of Venetian state monopoly capitalism that the Genoese regime had superseded. Similarly, the internalization of production costs by the British regime in comparison with the Dutch regime occurred through a revival in new and more complex forms of the strategies and structures of Genoese cosmopolitan capitalism and Iberian global territorialism. And the same pattern recurred once again with the rise and full expansion of the US regime, which internalized transaction costs by reviving in new and more complex forms the strategies and structures of Dutch corporate capitalism (see Figure 1, columns 1 & 2).³²

This recurrent revival of previously superseded strategies and structures of accumulation generates a pendulum-like movement back and forth between ‘cosmo-

²⁹ *Ibid.*, pp. 36–47, 127–51.

³⁰ *Ibid.*, pp. 43–58; 174–238.

³¹ *Ibid.*, pp. 58–74 and ch. 4.

³² *Ibid.*, pp. 57–8; 70–2; 243ff.

politan-imperial' and 'corporate-national' organizational structures, the first being typical of 'extensive' regimes—as the Genoese-Iberian and the British were—and the second of 'intensive' regimes—as the Dutch and the US were. The Genoese-Iberian and British 'cosmopolitan-imperial' regimes were extensive in the sense that they have been responsible for most of the geographical expansion of the world capitalist system. Under the Genoese regime, the world was 'discovered', and under the British it was 'conquered'. The Dutch and the US 'corporate-national' regimes, in contrast, were intensive in the sense that they have been responsible for the geographical consolidation rather than expansion of the world capitalist system. Under the Dutch regime, the 'discovery' of the world realized primarily by the Iberian partners of the Genoese was consolidated into an Amsterdam-centred system of commercial *entrepôts* and joint-stock chartered companies. And under the US regime, the 'conquest' of the world realized primarily by the British themselves was consolidated into a US-centred system of national markets and transnational corporations.

This alternation of extensive and intensive regimes blurs our perception of the underlying, truly long-term, tendency towards the formation of regimes of increasing size, scope and complexity. When the pendulum swings in the direction of extensive regimes, the underlying trend is magnified, and when it swings in the direction of intensive regimes, the underlying trend appears to have been less significant than it really was. Nevertheless, once we control for these swings by comparing the two intensive and the two extensive regimes with one another—the Genoese-Iberian with the British, and the Dutch with the US—the underlying trend becomes unmistakable.

The development of historical capitalism as a world system has thus been based on the formation of ever more powerful cosmopolitan-imperial (or corporate-national) blocs of governmental and business organizations endowed with the capability of widening (or deepening) the functional and spatial scope of the world capitalist system. And yet, the more powerful these blocs have become, the shorter the life-cycle of the regimes of accumulation that they have brought into being—the shorter, that is, the time that it has taken for these regimes to emerge out of the crisis of the preceding dominant regime, to become themselves dominant, and to attain their limits as signalled by the beginning of a new financial expansion. Relying on Braudel's dating of the beginning of financial expansions, this time was less than half, both in the case of the British regime relative to the Genoese and in the case of the US regime relative to the Dutch.³³

This pattern of capitalist development whereby an increase in the power of regimes of accumulation is associated with a decrease in their duration, calls to mind Marx's contention that '*the real barrier of capitalist production is capital itself*' and that capitalist production continually overcomes its immanent barriers 'only by means which again place these barriers in its way on a more formidable scale'.³⁴ But the contradiction between the self-expansion of capital on the one side, and the development of the material forces of production and of an appropriate world market on the other, can in fact be reformulated in even more general terms than Marx did. For historical capitalism as world system of accumulation became a

³³ Ibid., pp. 216–17.

³⁴ Karl Marx, *Capital*, vol. III (Moscow, Foreign Languages Publishing House, 1962), pp. 244–5, emphasis in the original.

'mode of production'—that is, it internalized production costs—only in its third (British) stage of development. And yet, the principle that the real barrier to capitalist development is capital itself, that the self-expansion of existing capital is in constant tension, and recurrently enters into open contradiction with the expansion of world trade and production and the creation of an appropriate world market—all this was clearly at work already in the Genoese and Dutch stages of development, notwithstanding the continuing externalization of agro-industrial production by their leading agencies.

In both the Genoese and Dutch stages the starting and closing point of the expansion of world trade and production was the pursuit of profit as an end in itself on the part of a particular capitalist agency. In the first stage, the 'Great Discoveries', the organization of long-distance trade within and across the boundaries of the far-flung Iberian empire(s), and the creation of an embryonic 'world market' in Antwerp, Lyons and Seville were to Genoese capital mere means of its own self-expansion. And when around 1560 these means no longer served this purpose, Genoese capital promptly pulled out of trade to specialize in high finance. Likewise, the undertaking of carrying trade among separate and often distant political jurisdictions, the centralization of *entrepôt* trade in Amsterdam and of high-value-added industries in Holland, the creation of a worldwide network of commercial outposts and exchanges, and the 'production' of whatever protection was required by all these activities, were to Dutch capital mere means of its own self-expansion. And again, when around 1740 these means no longer served this purpose, Dutch capital abandoned them in favour of a more thorough specialization in high finance.

From this angle of vision, in the nineteenth century British capital simply repeated a pattern that had been established long before historical capitalism as mode of accumulation had become also a mode of production. The only difference was that, in addition to carrying, *entrepôt*, and other kinds of long-distance and short-distance trade and related protection and production activities, in the British cycle extractive and manufacturing activities—that is, what we may call production in a narrow sense—had become critical means of the self-expansion of capital. But around 1870, when production and related trade activities no longer served this purpose, British capital moved fast towards specialization in financial speculation and intermediation, just as Dutch capital had done 130 years earlier and Genoese capital 310 years earlier, and US capital would do 100 years later.

In all instances the contradiction is that the expansion of world trade and production were mere means in endeavours aimed primarily at increasing the value of capital and yet, over time, it tended to drive down the rate of profit and thereby curtail the value of capital. Thanks to their continuing centrality in networks of high finance, the established organizing centres are best positioned to turn the intensifying competition for mobile capital to their advantage, and thereby reflate their profits and power at the expense of the rest of the system. From this point of view, the reflation of US profits and power in the 1990s follows a pattern that has been typical of world capitalism from its earliest beginnings.³⁵ The question that remains open is whether this long established pattern can be expected to result, in the future as it did in the past, in the replacement of the still dominant US regime by another regime.

³⁵ Arrighi and Silver, et al., 1999, *Chaos and Governance*, pp. 272–5.

Hegemonic transitions: past and present

Figure 1 sums up the patterns of recurrence and evolution that we have inferred from a comparison of successive systemic cycles of accumulation. Were the future of world capitalism fully inscribed in these patterns—something that is even less likely to be the case in the present than it was in past transitions, as we shall presently see—the task of forecasting what to expect over the next half century or so would be straightforward. Our expectations would be the following.

First, within ten or at most twenty years the US regime would experience its terminal crisis. Second, over time (let us say, in another twenty years or so) the crisis would be superseded by the formation of a new regime capable of sustaining a new material expansion of world capitalism. Third, the leading governmental organization of this new regime would approximate the features of a ‘world-state’ more closely than the United States already has. Fourth, unlike the US regime, the new regime would be of the extensive (‘cosmopolitan-imperial’) rather than of the intensive (‘corporate-national’) variety. Finally, and most important, the new regime would internalize reproduction costs, that is, the kind of costs that the US regime has tended to externalize ever more massively.

We cannot rule out that these expectations will actually be fulfilled. But their fulfilment is neither the only nor, indeed, the most likely of possible futures, because transitions from one regime to another are not fully inscribed in previously established patterns. Established patterns of recurrence and evolution show that the *succession* of emergent developmental paths that over the centuries has propelled the expansion of the world capitalist system to its present, all-encompassing global dimensions, has not been a purely random process. But the emergence of a newly successful developmental path in the course of each and every transition has been contingent upon, and thoroughly shaped by, a range of historical and geographical factors that were themselves transformed and recombined by the competition and struggles that underlie financial expansions.

The patterns that we observe *ex post*, in other words, are as much the outcome of geographical and historical contingencies as they are of historical necessity. In speculating *ex ante* about future outcomes of the present transition, therefore, we must pay equal attention to phenomena that fit into past patterns of recurrence and evolution and to phenomena that do not, that is, to significant anomalies that can be expected to make future outcomes deviate from past patterns. In an attempt to identify such anomalies, we have engaged in an in-depth analysis of the dynamic of the present transition in comparison with past hegemonic transitions.³⁶ While the analysis has found sufficient similarities between present and past transitions to make their comparison meaningful, it has also identified a number of anomalies that warn us against the pitfalls of any mechanical projection of past patterns into the future.

Figure 2 sums up the overall model of hegemonic transition that has emerged from the analysis.³⁷ The model describes systemic expansions as being embedded in

³⁶ Ibid.

³⁷ For more specific models of the hegemonic transitions as seen from different angles of vision, see Arrighi and Silver, et al., *Chaos and Governance*, pp. 65, 122, 180.

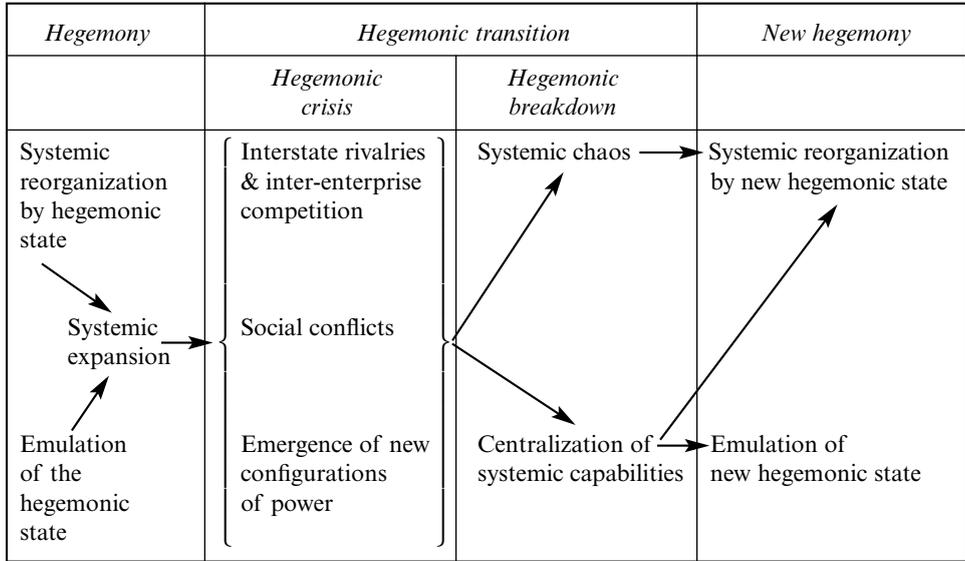


Figure 2. *The dynamics of hegemonic transitions.*

particular hegemonic structures that over time they tend to undermine. The expansions are the outcome of the two different kinds of leadership that jointly define hegemonic situations. On the one hand, leadership of the *system* in a new direction perceived to be in the general interest (systemic reorganization) promotes expansion by endowing the system with a wider or deeper division of labour and specialization of functions. On the other hand, leadership of other *states* onto the path of development of the dominant state (emulation) provides the separate states with the motivational drive needed to mobilize energies and resources in the expansion (see Figure 2, column 1).³⁸

There is always a tension between these two tendencies because a wider and deeper division of labour and specialization of functions involves co-operation among the system's units, while emulation is based on and fosters their mutual competition. Initially, emulation operates in a context that is predominantly co-operative and thereby acts as an engine of expansion. But expansion increases what Emile Durkheim³⁹ has called the 'volume' and 'dynamic density' of the system, that is, the number of socially relevant units that interact within the system and the number, variety and velocity of transactions that link the units to one another. Over time, this increase in the volume and dynamic density of the system tends to intensify competition among the system's units beyond the regulatory capacities of existing institutions. When that happens, the tendency of separate states to pursue their national interest without regard for system-level problems that require system-

³⁸ On the distinction between these two kinds of leadership and their relationship to the concept of world hegemony, see Arrighi and Silver, et al., *Chaos and Governance*, pp. 26–28

³⁹ Emile Durkheim, *The Rules of Sociological Method* (New York, Free Press, 1964), p. 115 and *The Division of Labor in Society* (New York, Free Press, 1984), pp. 200–5.

level solutions—that is, what Kenneth Waltz⁴⁰ has called ‘the tyranny of small decisions’—regains the upper hand, the power of the hegemonic state experiences a deflation, and a hegemonic crisis sets in.

Hegemonic crises have been characterized by three distinct but closely related processes: the intensification of interstate and inter-enterprise competition; the escalation of social conflicts; and the interstitial emergence of new configurations of power (see Figure 2, column 2). The form that these processes take and the way in which they relate to one another in space and time has varied from crisis to crisis. But some combination of the three processes can be detected in each of the two, so-far-completed hegemonic transitions—from Dutch to British and from British to US hegemony—as well as in the present transition from US hegemony to a yet unknown destination.

Moreover, in the past transitions (although not yet in the current one), hegemonic crises eventually led to a complete hegemonic breakdown and ‘systemic chaos’. By systemic chaos we understand a situation of severe and seemingly irremediable systemic disorganization. As competition and conflicts escalate beyond the regulatory capacity of existing structures, new structures emerge interstitially and destabilize further the dominant configuration of power. Disorder tends to become self-reinforcing, threatening to provoke or actually provoking the complete breakdown in the system’s organization (see Figure 2, column 3).

Financial expansions have been an integral aspect of hegemonic crises, both past and present, as well as of the eventual transformation of past hegemonic crises into hegemonic breakdowns. Their impact on the tendency of crises to turn into breakdowns is ambivalent. On the one hand, they hold it in check by temporarily inflating the power of the declining hegemonic state. As the ‘autumn’ of major capitalist developments, financial expansions are also the autumn of the hegemonic structures in which these developments are embedded. They are the time when the leader of a major expansion of world trade and production which is drawing to a close reaps the fruits of its leadership in the form of a privileged access to the overabundant liquidity that accumulates in world financial markets. Thanks to its continuing centrality in networks of high finance, the declining hegemon can turn the competition for mobile capital to its advantage and thereby experience a reflation of its waning power. This reflation enables the declining hegemonic state to contain, at least for a time, the forces that challenge its continuing dominance.

On the other hand, however, financial expansions strengthen these same forces by widening and deepening the scope of interstate and inter-enterprise competition and social conflict, and by reallocating capital to emergent structures that promise greater security or higher returns than the dominant structure. Declining hegemonic states are thus faced with the Sisyphean task of containing forces that keep rolling forth with ever renewed strength. Sooner or later, even a small disturbance can tilt the balance in favour of the forces that wittingly or unwittingly are undermining the already precarious stability of existing structures, thereby provoking a breakdown of systemic organization.

Hegemonic breakdowns are the decisive turning points of hegemonic transitions. They are the time when the systemic organization that had been put in place by the

⁴⁰ Kenneth Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley 1979), pp. 108–9.

declining hegemonic power disintegrates and systemic chaos sets in. But they are also the time when new hegemonies are forged.

For increasing systemic disorganization curtails the collective power of the system's dominant groups. And the greater the curtailment, the more widely and deeply felt the demand for system-level governance. Nevertheless, this demand can be satisfied and a new hegemony emerge only if increasing systemic disorganization is accompanied by the emergence of a new complex of governmental and business agencies endowed with greater system-level organizational capabilities than those of the preceding hegemonic complex. The breakdown of any given hegemonic order is ultimately due to the fact that the increase in the volume and dynamic density of the system outgrows the organizational capabilities of the particular hegemonic complex that had created the conditions of the systemic expansion. Ultimately, therefore, the ensuing self-reinforcing disorder can be overcome, and the conditions of a new systemic expansion can be created, only if a new complex emerges that is endowed with greater systemic capabilities than the old hegemonic complex.

Historically, the same processes that have generated systemic chaos have generated also the greater concentration of systemic capabilities that eventually resulted in the establishment of a new hegemony. As the rising hegemon leads the system in the direction of greater co-operation among the system's units, while drawing them onto its own path of development, systemic chaos subsides and a new hegemonic cycle begins (see Figure 2, column 4). But each cycle differs from the preceding one in two main respects: the greater concentration of organizational capabilities wielded by the hegemonic state in comparison with its predecessor, and the higher volume and dynamic density of the system that is being reorganized by the hegemonic state.

Our model thus describes a pattern of recurrence—hegemony leading to expansion, expansion to chaos and chaos to a new hegemony—which is also a pattern of evolution—each new hegemony reflecting a greater concentration of organizational capabilities and a higher volume and density of the system than the preceding hegemony. This double pattern concerns past hegemonic transitions. In the present transition there are few signs of an imminent breakdown of US hegemony. Nevertheless, we can detect some important similarities between present transformations of the global political economy and those typical of past transitions. The most important is the similarity between the present US-centred financial expansion, not just with the British-centred financial expansion of the late-nineteenth and early twentieth centuries as many observers have noted, but also with the Dutch-centred financial expansion of the mid-eighteenth century. As we shall see, there are good reasons for expecting the present financial expansion to end differently from earlier ones. But there are just as good reasons for interpreting the present expansion and the attendant reflation of US power as signs of a hegemonic crisis analogous to those of 100 and 250 years ago.

In the past, as in the present, the reflation of the power of the declining hegemon tended to blind them to the increasingly fragile nature of their dominance. The reflation came late and was minor in the case of the Dutch; it came early and was major in the case of the British. But in both cases these power revivals and the financial expansions that underlay them ended with the complete breakdown of the decaying hegemonic order some 30–40 years after they had begun. In both transitions, the financial expansions that reflatated the power of the declining hegemonic state would have come to an end anyway under the weight of their own contra-

dictions. But the blindness that led the ruling groups of these states to mistake the 'autumn' for a new 'spring' of their hegemonic power meant that the end came sooner and more catastrophically than it might otherwise have—mostly for itself in the case of the Dutch Republic, mostly for Europe and the world at large in the case of Britain.⁴¹

A similar blindness is evident today. The ease with which the United States has succeeded in mobilizing resources in global financial markets to defeat the USSR in what Fred Halliday⁴² has called the Second Cold War, and then to sustain a long domestic economic expansion and a spectacular boom in the New York stock exchange, has led to the belief that 'America's back!' Even assuming that US global power has been reflat as much as this belief implies, it would be a very different *kind* of power than the one deployed at the height of US hegemony. That power rested on the capacity of the United States to rise and raise other states above 'the tyranny of small decisions' so as to solve the system-level problems that had plagued the world in the systemic chaos of the 1930s and 1940s. The new power that the United States has come to enjoy in the 1980s and 1990s, in contrast, rests on the capacity of the United States to outcompete most other states in global financial markets, thereby resurrecting a new tyranny of small decisions in the context of ever more pressing system-level problems that neither the United States nor any other state seems capable of solving.

Moreover, the *extent* to which US power itself has been reflat is not as great as generally assumed by US elites. For one thing, the financial expansion itself seems to rest on increasingly precarious grounds. Even the most enthusiastic supporters of interstate competition in globally integrated financial markets have begun to fear that financial globalization is turning into 'a brakeless train wreaking havoc'. They worry about a 'mounting backlash' against the effects of such a destructive force, first and foremost 'the rise of a new brand of populist politicians' fostered by the 'mood ... of helplessness and anxiety' that is taking hold even of wealthy countries.⁴³ A backlash of this kind has been a typical feature of past financial expansions.⁴⁴ It announces that the massive redistribution of income and wealth on which the expansion rests has reached, or is about to reach, its limits. And once the redistribution can no longer be sustained economically, socially and politically, the financial expansion is bound to end. The only question that remains open in this respect is not whether but how soon and how catastrophically the present global dominance of finance capital will draw to a close. Indeed, the bursting of the 'New Economy' bubble in 2000–01 may well be an early sign that the financial expansion and concomitant reflation of US power have already reached their limits.

Finally and equally important, the US-centred financial expansion has been accompanied by a major shift of the global economy's centre of gravity from North America to East Asia. In 1960, at the height of US hegemony, East Asia's Gross National Product (GNP) was only 35 per cent of the North American GNP. By 1990, in contrast, it was almost as large (91 per cent). In the 1990s, the combination of US resurgence and Japanese collapse slowed down but did not reverse the shift—

⁴¹ Arrighi and Silver, et al., *Chaos and Governance*, chapters 1, 3 and conclusions.

⁴² Fred Halliday, *The Making of the Second Cold War* (London: Verso, 1986).

⁴³ Quoted in Harvey, 'Globalization in Question', pp. 8, 12.

⁴⁴ Arrighi and Silver, *Chaos and Governance*, ch. 3.

the East Asian GNP relative to the North American rose further, to 92 per cent by 1998, thanks primarily to continuing rapid growth in the 'China Circle' (Mainland China, Singapore, Hong Kong and Taiwan).⁴⁵ The shift, however, is even more significant than these figures imply. As Eamonn Fingleton has recently noted, focusing exclusively on US–Japanese relations, Japan's continuing advance in manufacturing activities relative to the United States in the 1990s generated large and persistent surpluses in the Japanese balance of trade and deficits in the US balance, thereby deepening the reversal of positions between the two countries in the international credit system.

Japan is now exporting more capital in real terms than any nation since America's days of global economic dominance in the 1950s. ... [As a result,] in the first nine years of the 1990s Japan's net external assets jumped from \$294 billion to \$1,153 bn. Meanwhile, US net external liabilities rocketed from \$49 bn to \$1,537 bn. In the long run this changing balance of financial power will be about the only thing that historians will remember about US–Japanese economic rivalry in the last decade. Yet it was the one thing that Western observers generally overlooked.⁴⁶

It is hard to tell what future historians will actually remember about the 1990s. Nevertheless, the ongoing reversal of the East Asian and North American fortunes in the international credit system⁴⁷ bears a close resemblance to the reversal of the US and British fortunes during the hegemonic transition of the first half of the twentieth century. To be sure, reversals of this order bring problems of their own, as witnessed by the turbulence that has characterized the East Asian economies from the 1990–92 Crash of the Tokyo stock exchange through the East Asian crisis of 1997–98. Problems of this kind, however, have been typical of all newly emergent centres of world capitalism. In past hegemonic transitions, as Braudel himself noted, the crises that ushered in the demise of the old financial centre were felt earliest and most severely in the *rising* financial centres, London in 1772 and New York in 1929.⁴⁸ It follows that the Asian financial crises of the 1990s are not in themselves signs of a long-term regional weakness, nor of a reversal of recent trends towards the rotation of the global economy's centre of gravity back to East Asia, where it was in pre-modern and early-modern times.

In sum, the global financial expansion of the last 25 years or so is neither a new stage of world capitalism nor the harbinger of a 'coming hegemony of global markets'. Rather, it is the clearest sign that we are in the midst of a hegemonic transition analogous to the Dutch-to-British and British-to-US transitions. The analogy makes us sceptical about the long-term stability of the present global dominance of finance capital and associated reflation of US power. But it also

⁴⁵ Calculated from World Bank, *World Development Indicators*, CD ROM (Washington, DC: World Bank, 2000) and Republic of China, *National Income in Taiwan Area of the Republic of China* (Taipei: Bureau of Statistics, DGBAS, Executive Yuan, various years). 'North America' consists of the United States and Canada. 'East Asia' consists of China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

⁴⁶ Eamonn Fingleton, 'Quibble All You Like, Japan Still Looks Like a Strong Winner'. *International Herald Tribune*, 2 January (2001), p.6.; cf. Eamonn Fingleton, *Blindside: Why Japan Is Still on Track to Overtake the US by the Year 2000* (Boston: Houghton Mifflin, 1995).

⁴⁷ The reversal is even greater than indicated by Fingleton once we take into account the rapid increase in the external assets of the 'China Circle', since all of its members had sizeable and growing current account surpluses in the 1990s.

⁴⁸ Arrighi and Silver, et al., *Chaos and Governance*, pp. 74–5, 95–6, 274–5.

enables us to identify the true novelties of the present transition in comparison with previous ones. By way of conclusion, let us review the most important among these novelties, as well as their implications for the ongoing transformations.

Possible futures

Geopolitically, the most important novelty of present transformations is a bifurcation of military and financial capabilities that has no precedent in earlier hegemonic transitions. In all past transitions, financial expansions were characterized by the interstitial emergence of governmental-business complexes that were (or could be plausibly expected to become) more powerful both militarily and financially than the still dominant governmental-business complex—as the US complex was relative to the British in the early twentieth century, the British complex relative to the Dutch in the early eighteenth century, and the Dutch relative to the Genoese in the late sixteenth century. In the present transition, in contrast, no such emergence can be detected.

As in past transitions, the declining but still dominant (US) complex has been transformed from the world's leading creditor into the world's leading debtor nation. Unlike in past transitions, however, military resources (of any global significance) have become more than ever concentrated in the hands of the still dominant complex. The declining hegemon is thus left in the anomalous situation that it faces no credible military challenge—a circumstance that makes war among the system's great powers less likely than in past transitions—but it does not have the financial means needed to solve system-level problems that require system-level solutions—a circumstance that may very well lead to a hegemonic breakdown even in the absence of world wars among the system's great powers.

The obverse side of this anomalous situation is the re-emergence of city-states (Hong Kong and Singapore) and semi-sovereign states (Japan and Taiwan) as the 'cash-boxes' of the world capitalist system.⁴⁹ Not since the elimination of the Dutch Republic from the high politics of Europe, have cash-boxes of this kind exercised as much influence on the politics of the modern world as they do now. Also in this respect—as in the rotation of the centre of gravity of the global economy back to East Asia—the present transition seems to be reviving features of early and pre-modern times. Since all these cash-boxes owe their fortunes to a strict specialization in the pursuit of wealth rather than the pursuit of power, none of them—the biggest one (Japan) included—can be expected to change course by either trying to become a military power of more than regional significance or by trying to provide system-level solutions for system-level problems. This is a further reason for expecting that the present crisis has no inherent tendency to escalate into a war among the system's most powerful units, but has no inherent tendency towards the avoidance of a hegemonic breakdown either.⁵⁰

⁴⁹ On Japan as semi-sovereign state, see Bruce Cumings, 'Japan and Northeast Asia into the Twenty-first Century', in P. J. Katzenstein and T. Shiraishi (eds.), *Network Power: Japan and Asia* (Ithaca, NY: Cornell University Press, 1997), p. 155.

⁵⁰ Arrighi and Silver, et al., *Chaos and Governance*, pp. 88–96, 263–70, 275–8, 286–9; Arrighi and Silver, 'Hegemonic Transitions', pp. 310–11.

Just as important as the geopolitical novelty is the social novelty of present transformations. In past hegemonic transitions, systemwide financial expansions contributed to an escalation of social conflict. The massive redistribution of rewards and social dislocations entailed by financial expansions provoked movements of resistance and rebellion by subordinate groups and strata whose established ways of life were coming under attack. Interacting with the interstate power struggle, these movements eventually forced the dominant groups to form a new hegemonic social bloc that selectively included previously excluded groups and strata.

In the transition from Dutch to British hegemony, the aspirations of the European propertied classes for greater political representation and the aspirations of the settler bourgeoisies of the Americas for self-determination were accommodated in a new dominant social bloc. But the aspirations of the European non-propertied classes and of the African slaves in the Americas were not, in spite of their respective contributions to the upheavals that transformed the dominant social bloc. Under British hegemony, slavery was slowly but surely eliminated, but the attendant gains towards racial equality were blunted by European expansion in Asia and Africa, and by new means of effectively subordinating the freed slaves in the Americas.⁵¹

With the transition from British to US hegemony—under the joint impact of the revolt against the West and working-class rebellions—the hegemonic social bloc was further expanded through the promise of a global New Deal. The working classes of the wealthier countries of the West were promised security of employment and high mass consumption. The elites of the non-Western world were promised the right to national self-determination and development (that is, assistance in catching up with the standards of wealth and welfare established by Western states). It soon became clear, however, that this package of promises could not be delivered. Moreover, it engendered expectations in the world's subordinate strata that seriously threatened the stability and eventually precipitated the crisis of US hegemony.⁵²

Here lies the peculiar social character of this crisis in comparison with earlier hegemonic crises. The crisis of Dutch hegemony was a long drawn out process in which a systemwide financial expansion came late and systemwide social conflict later still. The crisis of British hegemony unfolded more rapidly but the systemwide financial expansion still preceded systemwide social conflict. In the crisis of US hegemony, in contrast, the systemwide explosion of social conflict of the late 1960s and early 1970s preceded and thoroughly shaped the subsequent financial expansion.

Indeed, in a very real sense the present financial expansion has been primarily an instrument—to paraphrase Wallerstein⁵³—of the containment of the combined demands of the peoples of the non-Western world (for relatively little per person but for a lot of people) and of the Western working classes (for relatively few people but for quite a lot per person). The financial expansion and associated restructuring of the global political economy have undoubtedly succeeded in disorganizing the social forces that were the bearers of these demands in the upheavals of the late 1960s and 1970s. At the same time, however, the underlying contradiction of a world capitalist

⁵¹ Arrighi and Silver, et al., *Chaos and Governance*, pp. 153–76.

⁵² *Ibid.*, pp. 176–216.

⁵³ Immanuel Wallerstein, 'Response: Declining States, Declining Rights?' *International Labor and Working-Class History*, 47 (1995), p. 25.

system that promotes the formation of a world proletariat but cannot accommodate a generalized living wage (that is, the most basic of reproduction costs), far from being solved, has become more acute than ever.⁵⁴

The combination of the geopolitical and social anomalies of present transformations points to the pitfalls involved in any simple extrapolation into the future of the long-term tendencies depicted in Figure 1. Social pressures for the internalization of reproduction costs within the structures of world capitalism have not been eliminated. And yet, the bifurcation of military and financial power and the decentralization of financial power in otherwise politically weak states do not augur well for an easy or imminent accommodation of those pressures. This does not mean that there are no solutions to the crisis of over-accumulation that underlies the ongoing financial expansion. Rather, it means that the crisis has more than one possible solution—some involving a continuation of past patterns, others their reversal, and still others the emergence of new patterns. Which particular solution will eventually materialize depends on an ongoing process of struggle that for the most part still lies in front of us.

To complicate things further, this process of struggle can be expected to be shaped by a third major novelty of present transformations. This is the previously noted shift of the epicentre of the global economy to East Asia—a region that unlike all previous organizing centres of world capitalism lies outside the historical boundaries of Western civilization. It is this shift above all else that has led Samuel Huntington to advance his highly influential and controversial thesis of a coming ‘clash of civilizations’.⁵⁵

In reality, a clash between Western and non-Western civilizations has been a constant of the historical process whereby the world capitalist system was transformed from a European to a global system. The transition from Dutch to British hegemony was marked by the violent conquest or destabilization of the indigenous world systems of Asia. The transition from British to US hegemony was marked, first, by a further extension of Western territorial empires in Asia and Africa, and then by a general revolt against Western domination.⁵⁶

Under US hegemony, the map of the world was redrawn to accommodate demands for national self-determination. By and large this new map reflected the legacy of Western colonialism and imperialism, including the cultural hegemony that led non-Western elites to claim for themselves more or less viable ‘nation-states’ in the image of the metropolitan political organizations of their former imperial masters. There was nonetheless one major exception to the rule: East Asia. Except for some states on its southern fringes (most notably, Indonesia, Malaysia, the Philippines and the city-states of Hong Kong and Singapore), the region’s map reflected primarily the legacy of the China-centred world system, which the Western intrusion had destabilized and transformed at the margins but never managed to destroy and recreate in the Western image. All the region’s most important nations

⁵⁴ Arrighi and Silver, et al., *Chaos and Governance*, pp. 282–6.

⁵⁵ Samuel Huntington, ‘The Clash of Civilizations?’ *Foreign Affairs*, 73: 3 (1993), pp. 22–49. For early responses, see Samuel Huntington, et al., *The Clash of Civilizations? The Debate* (New York: Council on Foreign Relations, 1993). For a critical assessment of the debate, see Hayward Alker, ‘If Not Huntington’s “Civilizations”, Then Whose?’ *Review* (Fernand Braudel Center), 18: 4 (1995), pp. 33–62.

⁵⁶ Arrighi and Silver, et al., *Chaos and Governance*, pp. 219–63.

that were formally incorporated in the expanded Westphalia system—from Japan, Korea, and China to Vietnam, Laos, Kampuchea, and Thailand—had all been nations long before the European arrival. What's more, they had all been nations linked to one another, directly or through the Chinese centre, by diplomatic and trade relations and held together by a shared understanding of the principles, norms, and rules that regulated their mutual interactions as a world among other worlds.⁵⁷

This geopolitical relict was as difficult to integrate into the US Cold War world order as into the British world order. The fault-lines between the US and Soviet spheres of influence in the East Asian region started breaking down soon after they were established—first by the Chinese rebellion against Soviet domination, and then by the US failure to split the Vietnamese nation along the Cold War divide. Then, while the two superpowers escalated their competition in the final embrace of the Second Cold War, the various pieces of the East Asian puzzle reassembled themselves into the world's most dynamic regional economy.⁵⁸

The astonishing speed with which this regional economy has become the new workshop and cash-box of the world has contributed to a widespread 'fear of falling' in the Western world. A more or less imminent fall of the West from the commanding heights of world capitalism is certainly possible. But what should be feared about it is not at all clear.

The fall is likely because the leading states of the West are prisoners of the developmental paths that have made their fortunes, both political and economic. The paths are yielding decreasing returns in terms of rates of accumulation relative to the East Asian regional path, but they cannot be abandoned in favour of the more dynamic path without causing social strains so unbearable that they would result in chaos rather than 'competitiveness'. A similar situation arose in past hegemonic transitions. At the time of their respective hegemonic crises, both the Dutch and the British got themselves ever more deeply into the particular path of development that had made their fortunes, despite the fact that more dynamic paths were being opened up at the margins of their radius of action. And neither got out of the established path until the world system centred on them broke down.

As David Calleo⁵⁹ has suggested, the 'international system breaks down not only because unbalanced and aggressive new powers seek to dominate their neighbours, but also because declining powers, rather than adjusting and accommodating, try to cement their slipping pre-eminence into an exploitative hegemony'. Our comparison of past transitions shows that the role of aggressive new powers in precipitating systemic breakdowns has decreased from transition to transition, while the role of exploitative domination by the declining hegemon has increased. Dutch world power was already so diminished in the declining decades of its hegemony that Dutch resistance played only a marginal role in the systemic breakdown in comparison with the role played by the emerging, aggressive empire-building nation-states, first and

⁵⁷ On the China-centred regional world system, see especially Takeshi Hamashita, 'The Intra-Regional System in East Asia in Modern Times', in Peter J. Katzenstein and T. Shiraishi (eds.), *Network Power: Japan and Asia* (Ithaca, NY: Cornell University Press, 1997), pp. 113–35; and Sato Ikeda 'The History of the Capitalist World-System vs. The History of East-Southeast Asia', *Review* (Fernand Braudel Center), 19: 1 (1996), pp. 49–76.

⁵⁸ Arrighi and Silver, et al., *Chaos and Governance*, pp. 263–70.

⁵⁹ David Calleo, *Beyond American Hegemony: The Future of the Western Alliance* (New York: Basic Books, 1987), p. 142.

foremost Britain and France. By the time of its own hegemonic decline, in contrast, Britain remained powerful enough to transform its hegemony into exploitative domination. Although the emergence of aggressive new powers—first and foremost Germany—still played a major role in the breakdown of the British-centred world system, Britain's resistance to adjustment and accommodation was also crucial.

Today we have reached the other end of the spectrum. There are no credible aggressive new powers that can provoke the breakdown of the US-centred world system but the United States has even greater capabilities than Britain did a century ago to convert its declining hegemony into an exploitative domination. If the system eventually breaks down, it will be primarily because of US resistance to adjustment and accommodation. And conversely, US adjustment and accommodation to the rising economic power of the East Asian region is an essential condition for a non-catastrophic transition to a new world order.

An equally essential condition is the emergence of a new global leadership from the main centres of the East Asian economic expansion. This leadership must be willing and able to rise up to the task of providing system-level solutions to the system-level problems left behind by US hegemony. The most severe among these problems is the seemingly unbridgeable gulf between the life-chances of a small minority of the world population (between 10 and 20 per cent) and the vast majority. In order to provide a viable and sustainable solution to this problem, the 'tracklaying vehicles' of East Asia must open up a new path of development for themselves and for the world that departs radically from the one that is now at a dead-end.

This is an imposing task that the dominant groups of East Asian states have hardly begun to undertake. In past hegemonic transitions, dominant groups successfully took on the task of fashioning a new world order only after coming under intense pressure from movements of protest and self-protection. This pressure from below has widened and deepened from transition to transition, leading to enlarged social blocs with each new hegemony. Thus, we can expect social contradictions to play a far more decisive role than ever before in shaping both the unfolding transition and whatever new world order eventually emerges out of the impending systemic chaos. But whether the movements will largely follow and be shaped by the escalation of violence (as in past transitions) or precede and effectively work toward containing the systemic chaos is a question that is open. Its answer is ultimately in the hands of the movements.