

*Financial Expansions in World
Historical Perspective:
A Reply to Robert Pollin*

In his review of *The Long Twentieth Century*, Robert Pollin advances three surprising criticisms.¹ All three criticisms concern what I have called 'systemic cycles of accumulation'. These cycles consist of two phases: a phase of material expansion, in which profits come primarily from investments in the purchase, transformation, and sale of commodities (as encapsulated in Karl Marx's formula of capital $M \rightarrow C \rightarrow M'$), and a phase of financial expansion in which profits come, *not* from the further expansion of trade and production, but from borrowing, lending and speculating (as encapsulated in Marx's abridged formula of capital $M \rightarrow M'$). The first criticism concerns the mechanisms that bring about the change of phase from material to financial expansion; the second concerns the mechanisms that sustain financial expansions over long periods of time; and the third concerns the method used in constructing these cycles. I shall respond to the three criticisms in this order.

So far as I can tell, Pollin has no quarrel with the contention that at the roots of every change of phase from material to financial expansion we can detect a system-wide crisis of over-accumulation. He even approvingly quotes my diagnosis that these recurrent crises can be traced to the fact that 'every material expansion of the capitalist world-economy has been based on a particular organizational structure, the vitality of which was progressively undermined by the expansion itself.' But he complains that I do not maintain my focus on this idea, as witnessed by my disregard of the literature on the hostile take-overs of the 1980s, widely held to be the expression of 'growing inefficiencies of the corporate form of organization'.²

I find this criticism surprising because, the way I see it, almost the entire analysis of *The Long Twentieth Century* is in fact focused on the organizational structures in which systemic cycles of accumulation are embedded. I agree with Pollin that I should have dealt with, or at least mentioned, the literature on the hostile take-overs of the 1980s. But his very reference to this literature betrays a misunderstanding about the kind of organizational structures that are most relevant to the analysis of systemic cycles of accumulation.

¹ Robert Pollin, 'Contemporary Economic Stagnation in World Historical Perspective', *NLR* 219, pp. 109–18.

² *Ibid.*, pp. 113–14.

These are cycles of the world capitalist system—a system which 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 which are capable of leading the system towards wider or deeper divisions of labour. These divisions of labour, in turn, increase returns to capital invested in trade and production. Under these conditions, profits tend to be ploughed back into further expansion of trade and production more or less routinely, and knowingly or unknowingly, the system's main centres cooperate 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 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 on the system's governmental and business agencies 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 cooperation 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 Pollin's criticism, the account of the material expansion of the 1950s and 1960s proposed in *The Long Twentieth Century* focuses on the organizational structures, not 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 expansion—but on the organizational structures and contradictions of the Cold War world order in which the expansion was embedded. Among these contradictions, particular importance is attached to two closely related tendencies: the tendency of the material expansion to intensify competitive pressures on US corporations, 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. The wave of hostile take-overs of the 1980s, in contrast, is an event that belongs not to the change of phase but to the financial expansion itself—the object of Pollin's second surprising criticism to which I now turn.

Profits from Financial Expansion

Pollin claims that I never pose explicitly 'the most basic question' about financial expansions, that question being: 'where do the profits come from if not from the production and exchange of commodities?' He suggests that this question can be answered in three ways, 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 but no expansion of profits for the capitalist class as a whole. 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, either by breaking previous com-

mitments to workers and communities or by inducing governments to squeeze their populations to make payments to their capitalist creditors. 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 material production and exchange.' Had I been able to distinguish these three different sources of profit in financial deals, says Pollin, I would have realized that the 'crucial factor' in the patterns that I describe, 'is not that financial deals as such are taking place, but that new patterns are found for the profitable financing of productive activities . . .'³

What surprises me in this criticism is that all three sources of profitability listed by Pollin figure prominently in my account of financial expansions. Pollin's first source provides the link between crises of over-accumulation and financial expansions. As I sum up after comparing the first three systemic cycles of accumulation, 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 cooperation breaks down; and, increasingly, the losses of one organization are the condition of the profits of another. In short, competition turns from a positive-sum into a zero-sum (or even a negative-sum) game. It becomes cut-throat competition.⁴

I concur with Pollin that 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—including hostile take-overs—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. The 'crucial factor' in the creation of demand conditions has been interstate competition for mobile capital—a competition which also intensifies as a result of the over-accumulation crisis and brings about massive, system-wide redistribution of income and wealth from all kinds of communities to capitalist agencies, Pollin's second source of financial profits. This hypothesis, which I have derived from Max Weber, is used throughout the book to explain the profitability on a sustained basis of financial deals wholly or largely divorced from trade and production.⁵ Although the analysis is focused on state-capital rather than labour-capital relations, working-class communities are explicitly included among the many communities that lose out to capitalists in all the belle époques of finance capitalism—from Renaissance Florence to

³ Ibid., pp. 115–16.

⁴ Giovanni Arrighi, *The Long Twentieth Century*, Verso, London 1994, p. 227.

⁵ Ibid., pp. 11–13, 16, 105, 172, 231, 317, 330.

the Reagan era, through the Age of the Genoese, the periwig period of Dutch history and Britain's Edwardian era.⁶

Finally, Pollen'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 the 'crucial factor' that makes financial deals profitable on a sustained basis, but as a factor in the *supercession* of financial expansions by a new phase of material expansion. Here, I rely on Marx's hypothesis that the credit system has been a key instrument, both nationally and internationally, of the transfer of surplus capital from the declining to the rising organizing centres of capitalist trade and production. While Weber's hypothesis provides the most plausible explanation that I could find of why sustained financial expansions have been a recurrent feature of world capitalism, Marx's hypothesis provides an equally plausible explanation of why these sustained financial expansions eventually resulted in the emergence of new and ever more powerful organizing centres capable of leading world capitalism through a new phase of material expansion.

In short, not only does the account of historical capitalism proposed in *The Long Twentieth Century* identify the three different sources of financial profit that Pollen claims I failed to distinguish, in addition, it assigns to each source a distinct role in the dynamics of financial expansions. The first source—cut-throat intercapitalist competition—creates the overabundant liquidity that seeks investment in financial deals. The second source—major redistribution of income and wealth in favour of capitalists—creates the conditions for the sustained profitability of financial deals. And the third source—the reallocation of liquidity from the organizing centres that have lost the capacity to sustain the material expansion of world capitalism to the organizing centres that are acquiring such capacity—creates the conditions for the supercession of the financial expansions.

The answer to Pollin's 'most basic question' about financial expansions, therefore, is that profits on a sustained basis come primarily from major redistributions of income and wealth propelled by inter-state competition for mobile capital. These redistributions enable capitalists to go on profiting along a particular developmental path even after the maintenance of profits requires—to cite John Hicks—'that they should *not* be invested in further expansion.'⁷ As Pollen maintains—and as shown in the diagrammatic representation of systemic cycles of accumulation reproduced below—every phase of financial expansion is indeed characterized by the emergence of a newly successful $M \rightarrow C \rightarrow M'$ circuit. Pace Pollin, however, this emergence is not the reason why the still dominant $M \rightarrow M'$ circuit is successful. On the contrary, it is the reason why, historically, all financial expansions were eventually superseded by a new phase of material expansion.

Finally, Pollen's criticism of method surprised me not once but twice. First, I was surprised to hear that I have sought to sustain my narrative

⁶ *Ibid.*, pp. 173–4, 314–15.

⁷ John Hicks, *A Theory of Economic History*, Oxford 1969, p. 58 (emphasis added).

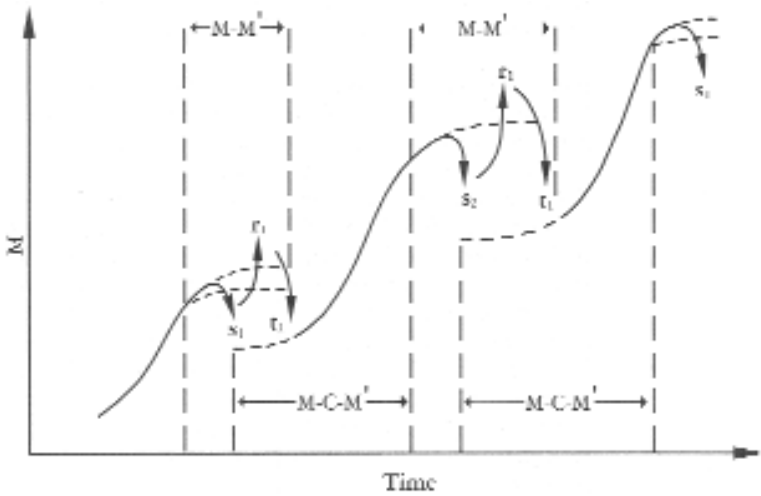


Figure Metamorphosis Model of Systemic Cycles of Accumulation

on the entire history of world capitalism 'within a relatively rigid analytic model'. And I was even more surprised to hear that my method of inquiry 'comes into conflict with the increasingly wide recognition that economic systems are characterized by path dependency—or the related concepts of “complexity” and “hysteresis”—which is to say, the specific outcomes in any given period are contingent on a range of factors, and the ways these factors happen to combine will then set the terms for the next round of indeterminate combinations'.⁸

Path Dependency and Evolution

My double surprise derives from the fact that, in substance if not in language, path dependency is what systemic cycles of accumulation are all about, and for that very reason I adopted a highly flexible and open-ended method in constructing them factually and theoretically. For the occurrence of financial expansions is ultimately explained by the embeddedness of the world capitalist system in particular developmental paths that enable the leading organizing centres of the system to go on benefiting from system-wide redistributions of income long after those paths have exhausted their material growth potential. And conversely, the occurrence of material expansions is explained by the emergence out of the self-sustaining world disorder associated with these redistributions, of new developmental paths endowed with a greater material growth potential than the developmental path along which the financial expansion is occurring (see figure).

Most of the narrative of *The Long Twentieth Century* is aimed precisely at showing that the emergence of these new developmental paths has been contingent upon, and thoroughly shaped by, a range of historical and

⁸ Pollin, 'Contemporary Economic Stagnation', p. 117.

geographical factors that were themselves transformed and recombined by the cut-throat competition and power struggles that underlie financial expansions. At the same time, however, the narrative is also aimed at showing 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, is not a purely random process. Rather, the succession can be described as an evolutionary process, whereby the organizing centres of each systemic cycle of accumulation are replaced at the commanding heights of the world capitalist system by new organizing centres of greater scale, scope and complexity. Thus, the Genoese business diaspora was replaced by the Dutch proto-nation state and its chartered companies, which were then replaced by the British nation-state and its formal empire and world-encompassing informal business networks, which were, in their turn, replaced by the continent-sized United States and its panoply of transnational corporations and far flung networks of quasi-permanent overseas military bases.

This evolutionary pattern and the associated pattern of recurrence described by systemic cycles of accumulation are *not* an 'analytic model'—if that is what Pollin has in mind in his methodological criticism. They are strictly empirical constructs that are not meant to explain anything but are themselves meant to be explained by the theoretical reconstruction of world capitalism as historical social system undertaken in *The Long Twentieth Century*. This reconstruction proceeds gradually through a comparative analysis of successive systemic cycles of accumulation and through heavy borrowing from whichever theoretical construct can provide the most plausible and parsimonious explanation of the observed patterns. As I underscore both in the Introduction and in the Epilogue of the book, if there is a problem with the resulting analytical model, it is that it is indeterminate. What is 'relatively rigid' about it, escapes me completely.

Response to Giovanni Arrighi

The Long Twentieth Century is a volume of great historical sweep and originality. I don't think my review could have been clearer in recognizing the many strengths of Giovanni Arrighi's work. However, I did also find that much of the book's core theoretical framework was in disarray. This need not be a critical problem in a work whose primary contribution is historical synthesis, but it is a major problem in my view in *The Long Twentieth Century*, since at least part of Arrighi's stated ambition was to bring much greater analytic cohesion to Braudel's similarly original but even more sprawling works.

There is no point in trading citations with Arrighi to support the contentions of my review. Interested readers can of course consult the review, but more importantly read *The Long Twentieth Century* and judge for themselves. However, it appears that my review has perhaps encouraged Arrighi to rethink his analytic framework in a way that I find to be a significant improvement over the presentation in the book itself. Most importantly, he has chosen not to defend his revision of Marx's $M \rightarrow C \rightarrow M'$ circuit that I found so unsatisfactory, this being the framework which is summarized in the crucial Figure 10 of the book, 'Long Centuries and Systemic Cycles of Accumulation' (p. 364). The approach and the figure he replaces it with in his reply—derived from Figure 16 in the book—are in the spirit of my own suggestion as to how he could have more effectively organized the book's analysis. As such, perhaps, our debate in these pages may have yielded some light as well as heat.