Polanyi's "Double Movement": The *Belle Époques* of British and U.S. Hegemony Compared

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The core of this article is a comparative analysis of the double movement of the late nineteenth and early twentieth century (the belle époque *and collapse of British hegemony) with the double movement of the late twentieth and early twenty-first century (the* belle époque *and current crisis of U.S. hegemony). In both periods the movement toward allegedly self-regulating markets called forth a countermovement of protection. Nevertheless, important differences exist due, first, to differences in the nature of the hegemonic state and, second, to the greater role of subordinate forces in constraining the movement toward self-regulating markets in the late twentieth century.*

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It is far from surprising that Karl Polanyi's *The Great Transformation*, published more than a half-century ago, would be attracting a growing number of admirers in the context of late-twentieth- and early-twenty-first-century "globalization." It is full of brilliant quotable quotes about the wrong-headedness of the nineteenth-century "liberal creed" that can be (and have been) turned to good rhetorical and analytical use against the contemporary purveyors of that creed—the promoters of the Washington Consensus and "neoliberal globalization."

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Written in the closing years of the Second World War, *The Great Transformation* is fundamentally optimistic about the future. Polanyi believed that the disasters of the first half of the twentieth century had taught humanity a lesson that would not be forgotten and that the utopian experiment of the nineteenth century would never be repeated. Thus he wrote, "Undoubtedly our age will be credited with having seen the end of the self-regulating market." While the 1920s "saw the prestige of economic liberalism at its height," in the 1930s the "absolutes of the 1920s were called into question," while in the 1940s "economic liberalism suffered an even worse defeat."[1]

Consistent with Polanyi's expectations—albeit short of his full hopes—some significant restrictions were put on the commodification of labor, land, and money in the decades immediately following the Second World War as a result of the mass consumption (labor-capital) and developmental (North-South) social contracts.[2] In the 1980s and 1990s, however, economic liberalism came back with a vengeance.

If the past two decades have belied Polanyi's optimism about the solidity of the lessons learned by humanity, *The Great Transformation* nevertheless remains a formidable source. Our interest in it in this article is not so much as a source for a critique of contemporary policies and ideologies but rather as a potential rough road map to the future. In the course of this article we will find much material to be mined from *The Great Transformation* for illuminating the journey ahead.

Yet two points are in order. First, because Polanyi saw the "Great Transformation" as a singular episode he does not "tell the story" in a way that facilitates the kind of comparative world-historical analysis that would be needed in order to map the alternative paths that are now potentially open (or closed) to navigation through human agency.[3] Second, although Polanyi acknowledged the existence (and sometimes even the importance) of differential power among classes and among states, he nevertheless underemphasized the role that these unequal power relations played in determining the historical trajectory he analyzed.

As argued elsewhere with relation to the implications of Polanyi's analysis for understanding countermovements of workers, Polanyi's framework tends to deemphasize power relations among classes.[4] The extension of the "self-regulating" market is likely to provoke active resistance from the bearers of the fictitious commodity labor, in part because it necessarily implies the overturning of established social compacts on the right to livelihood. Nevertheless, in Polanyi's analysis, an unregulated market would eventually be restrained by actions from above even if those below lacked sufficient bargaining power to protect themselves. This is because the project of a self-regulating market is simply "utopian" and unsustainable on its own terms—one that is bound to wreck the "fabric of society" and call forth "agencies" that will move to protect "society" from the ravages of the satanic mill, regardless of the existence (or effectiveness) of protest from below. Thus, for example, Polanyi argues that it was "enlightened reactionaries" among the land-lord class who played the "vital function" of fighting for protections for the emergent (still voiceless) British working class in the early nineteenth century.[5]

Polanyi puts forward a theory of class leadership with some analogies with Gramsci's conceptualization of hegemony. For a class/group to lead, it must also protect other classes/groups. "No policy of narrow class interest," writes Polanyi, "can safeguard even that interest well."[6] Similarly Gramsci writes that while

> the State is seen as the organ of one particular group . . . the development and expansion of the particular group are conceived of, and presented, as being the motor force of a universal expansion, a development of all the "national" energies.[7]

Nevertheless, for Gramsci such hegemony or "intellectual and moral leadership" is one side of the process through which a particular group rules; the other side of the process is the "domination" of "antagonistic groups, which it tends to 'liquidate' or to subjugate perhaps even by armed force."[8] Polanyi, in contrast, tends to work with a much more organic (solidaristic) conceptualization of society. In Polanyi's formulation, "the challenge" represented by the extension of the market economy is to "society as a whole." And because "different cross sections of the population [are] threatened by the market, persons belonging to various economic strata unconsciously [join] forces to meet the danger."[9]

Beyond the question of the relative weights that should be attached to force and consent is the question of the "normality" of the situation of hegemony. Polanyi (like Gramsci, and following Weber) sees force (domination) as a very unstable form of rule. "Unless the alternative to the social setup is a plunge into utter destruction," writes Polanyi, "no crudely selfish class can maintain itself in the lead."[10] For Polanyi this dynamic "allows of but few exceptions," and thus we can conclude that under normal circumstances the powerless and disenfranchised are likely to be the beneficiaries of "protection" promoted by more favorably located agents/actors.

From reading *The Great Transformation* we can derive at least two more or less explicit exceptions. The first exception is the case of the "plunge into utter destruction" (that is, the complete breakdown of the social order) referred to in the quote in the previous paragraph. While the way Polanyi formulates the sentence suggests that he sees such breakdowns as rare, "plunges into utter destruction" are a sufficiently widespread phenomenon in the early twenty-first century that we might want to treat it as a more "normal" phenomenon than Polanyi's concept of the double movement seems to allow.[11]

Another "exception" is the case of the nonsovereign colonies. This exception is especially important for at least two reasons. First, it is in his discussion of the colonial world that Polanyi explicitly recognizes the importance of sovereign state power as the basis for the effective self-protection of society. He writes,

> If the organized states of Europe could protect themselves against the backwash of international free trade, the politically unorganized colonial peoples could not. . . . The protection which the white man could easily secure for himself through the sovereign status of his communities was out of reach of the colored man as long as he lacked the prerequisite, political government.

Likewise, the ravages of free international trade and the gold standard were much more problematic for sovereign states that were economically weak. Military weakness, likewise, made countries vulnerable to the gunboat diplomacy increasingly used by the great powers to enforce the repayment of loans and maintain the open trade routes necessary to the functioning of the "self-regulating" global market.[12]

Second, this exception implicitly brings us to the question of the geographical scale at which the self-protection of society takes place (and also takes us implicitly back to the question of the relative balance of force and consent). For Polanyi, while the agents of the movement toward the market economy ranged from the local and national to the global (*haute finance*), the agents of the countermovement ("groups, sections, classes") were largely local and national (although their actions—e.g., protectionism, colonial conquest, anti-imperialist revolt—often had transnational implications). Moreover, these agents of the countermovement aimed at protecting local or national interests (interests, broadly defined). For Polanyi, the "society" that is protecting itself in the nineteenth and first half of the twentieth century is largely a national society.

Yet if we are today in the midst of the "discovery of [world] society" where are we to locate the effective agents of the countermovement for the self-protection of world society? What "groups, sections and classes" are available today to perform the "vital function" of protecting the common people of the world? Writing of nineteenth-century British social history, Polanyi claimed that the

> trading classes had no organ to sense the dangers involved in the exploitation of the physical strength of the worker, the destruction of family life, the devastation of neighborhoods, the denudation of forests, the pollution of rivers, the deterioration of craft standards, the disruption of folkways, and the general degradation of existence including housing and arts, as well as the innumerable forms of private and public life that do not affect profits.

The protection of nature fell to the landed aristocracy and the peasantry, while in time the "laboring people to smaller or greater extent, became representatives of the common human interests that had become homeless."[13]

Yet the common "human" interests being protected by the British "laboring people" were largely those of British humans. No organ among either the landed aristocracy or the "laboring people" of Britain existed to sense the dangers to humans and nature involved in the extension of the market economy to the colonial and semicolonial world. Indeed, in many ways, as Polanyi was well aware, the self-protection of industrial societies was the other side of the coin of the disruption of lives and livelihoods elsewhere.

It was only the force of anti-imperialist revolts—interacting with the escalating interimperialist rivalries and warfare among the major powers themselves—that eventually awakened the leading "groups, sectors and classes" of world society to the dangers implied by the extension of market economy to the Third World. This "sense" of danger was kept alive in the 1950s and 1960s by both continued anti-imperialist struggles in the South and the active Cold War rivalry between East and West. It is in this context that the United States used its global power to promote some form of developmentalist and labor-capital social contracts in its sphere of the world in the 1950s and 1960s and thus qualified not just as a dominant world power but also a hegemonic world power.[14]

Yet by the 1980s and 1990s, the agents of U.S. world power had lost the ability to "sense" the danger to others. U.S. hegemony has given way to U.S. domination, which, as Polanyi emphasized, is a very unstable form of rule, likely to lead to another world-scale "plunge into utter destruction." Elsewhere we have conceptualized the kind of world-scale "plunge into utter destruction" that we are likely to be on the verge of (if not already in) as periods of "systemic chaos." And we conceptualized the period of global "catastrophe" analyzed by Polanyi as an analogous (although not identical) such period.[15]

This brings us back to one of the central points made at the outset. That is, in order to develop a more detailed road map into the future (as well as the alternative paths still open to choice through human agency), we need an explicit comparative world-historical analysis of the double movement of the late nineteenth and early twentieth century (the *belle époque* and collapse of British hegemony) with the double movement of the late twentieth and early twenty-first century (the *belle époque* of U.S. hegemony and its current crisis). In the next two sections we carry out this comparison with a very specific focus on the power, structure, and interests of the hegemonic state.

POLANYI'S DOUBLE MOVEMENT UNDER BRITISH HEGEMONY

Polanyi's double movement was an inherently global process. "Nothing less than a self-regulating market on a world scale could ensure the functioning of this stupendous mechanism."[16] Unlike many of today's observers of "globalization," Polanyi was nonetheless perfectly aware of the local origins of global processes, brilliantly emphasizing the multiple connections that linked local and global processes. Yet while Polanyi's description of the double movement does in large measure recognize the role played by power relations at the global level in the countermovement of self-protection, power relations at this level play little or no role in his description of the movement toward the establishment of self-regulating markets.[17]

In Polanyi's account, the nineteenth-century self-regulating global market originated in two local processes: the British industrial revolution and the emergence of British political economy. The industrial revolution brought into existence in Britain a system of elaborate, specialized, and expensive industrial facilities that changed radically the relationship of commerce to industry.

> Industrial production ceased to be an accessory of commerce organized by the merchant as a buying and selling proposition; it now involved long-term investment with corresponding risks. Unless the continuance of production was reasonably assured, such a risk was not bearable.[18]

Such a risk would be bearable only on condition that all the inputs required by industry be readily available in the quantities needed, where and when they were needed. In a commercial society, this meant that all the elements of industry had to be available for purchase. Among these elements, the three fictitious commodities—labor, land, and money—were of outstanding importance. The industrial revolution in Britain thus created strong incentives for the establishment of a self-regulating market on a world scale.

In Polanyi's view, these incentives were not sufficient to initiate his double movement on a world scale. The additional force that eventually did initiate the movement was ideological—the rise under the influence of David Ricardo's thought of the utopian belief "in man's salvation through the self-regulating market." Born in pre-industrial times as a mere penchant for non-bureaucratic methods of government, this belief assumed evangelical fervor after the "take-off" of the industrial revolution in Britain. By the 1820s it came to stand for its three classical tenets:

> that labor should find its price on the market; that the creation of money should be subject to an automatic mechanism; that goods should be free to flow from country to country without hindrance or preference; in short, for a labor market, the gold standard, and free trade.[19]

In the 1830s and 1840s the liberal crusade for free markets resulted in an outburst of legislation passed by the British parliament aimed at repealing restrictive regulations. The key measures were the Poor Law Amendment Act of 1834, which subjected the domestic labor supply to the price-setting mechanisms of the market; Peel's Bank Act of 1844, which subjected monetary circulation in the domestic economy to the self-regulating mechanisms of the gold standard more strictly than it already was; and, finally, the Anti–Corn Law Bill of 1846, which opened up the British market to the supply of grain from the entire world. These three measures formed a coherent whole.

> Unless the price of labor was dependent upon the cheapest grain available, there was no guarantee that the unprotected industries would not succumb in the grip of the voluntarily

accepted task-master, gold. The expansion of the market system in the nineteenth century was synonymous with the simultaneous spreading of international free trade, competitive labor market, and gold standard; they belonged together.[20]

To embark upon such a venture of world-market formation, Polanyi claims, required a major act of faith. For Britain's unilateral adoption of free trade was based on expectations that "were entirely extravagant."

[It] meant that England would depend for her food supply upon overseas sources; would sacrifice her agriculture, if necessary, and enter on a new form of life under which she would be part and parcel of some vaguely conceived world unity of the future; that this planetary community would have to be a peaceful one, or if not, would have to be made safe for Great Britain by the power of the Navy; and that the English nation would face the prospects of continuous industrial dislocations in the firm belief in its superior inventive and productive ability. However, it was believed that if only the grain of all the world could flow freely to Britain, then her factories would be able to undersell all the world.[21]

However "extravagant," for at least half a century these expectations were fulfilled to a very large extent. As Polanyi himself underscores, "markets spread all over the face of the globe and the amount of goods involved grew to unbelievable proportions."[22] More important, the global spread of markets was associated with "a phenomenon unheard of in the annals of Western civilization, namely, a hundred years' peace—1815-1914."[23] The first half of this hundred years' peace rested primarily on political mechanisms—at first the Holy Alliance and then the Concert of Europe. In its second half, however, the peace came to rely increasingly on the social instrumentality of a "mysterious institution . . . *Haute finance*, an institution *sui generis*, peculiar to the last third of the nineteenth century and the first third of the twentieth century." This institution "functioned as the main link between the political and economic organization of the world in this period." Although its leading members

had made their fortunes in the financing of wars . . . and had no objection to any number of minor, short, or localized wars . . . their business would be impaired if a general war between the Great Powers should interfere with the monetary foundations of the system.[24]

[Moreover,] finance . . . acted as a powerful moderator in the councils and policies of a number of smaller sovereign states. Loans, and the renewal of loans, hinged upon credit, and credit upon good behavior. Since, under constitutional government (unconstitutional ones were severely frowned upon), behavior is reflected in the budget and the external value of the currency cannot be detached from appreciation of the budget, debtor governments were well advised to watch their exchanges carefully and to avoid policies which might reflect upon the soundness of the budgetary position. . . . Gold standard and constitutionalism were the instruments which made the voice of the City of London heard in many smaller countries which had adopted these symbols of adherence to the new international order. The Pax Britannica held its sway sometimes by the ominous poise of heavy ship's cannon, but more frequently it prevailed by the timely pull of a thread in the international monetary network.[25]

For all its power, high finance was faced with increasingly insurmountable obstacles in regulating interstate relations. For the period of its greatest sway was also the period when the countermovement against the self-regulating world market gained momentum and began to undermine the foundations of Europe's hundred years' peace.

> [T]he increase in the rhythm and volume of international trade as well as the universal mobilization of land, implied in the mass transportation of grain and agricultural raw materials from one part of the planet to another, at a fractional cost . . . dislocated the lives of dozens of millions in rural Europe. . . . The agrarian crisis and the Great Depression of 1873-86 had shaken confidence in economic self-healing. From now onward the typical institution of market economy could usually be introduced only if accompanied by protectionist measures, all the more so because since the late 1870's and early 1880's nations were forming themselves into organized units which were apt to suffer grievously from the dislocations involved in the sudden adjustment to the needs of foreign trade or foreign exchanges.[26]

The spread of industrialism was an integral aspect of this process of formation and consolidation of national states, and the spread of imperialism was itself primarily the result of "a struggle between the Powers for the privilege of extending their trade into politically unprotected markets." The manufacturing "fever" provoked a scramble for raw material supplies that reinforced the pressure to export. "Imperialism and half-conscious preparation for autarchy were the bent of Powers which found themselves more and more dependent upon an increasingly unreliable system of world economy."[27]

The political tension that ensued from this growing dependence on an increasingly unreliable world market system exploded in 1914, bringing the hundred years' peace to an end. As Fred Block notes,[28] and the above quotes make abundantly clear, Polanyi's interpretation of the connection between the growth of financial capital and the intensification of the interimperialist rivalries that eventually resulted in the First World War was quite different from Lenin's. In explicit disagreement with Lenin, Polanyi underscores how a general war among the Great Powers ran against the interests, not just of cosmopolitan high finance but of national finance as well. Business and finance, he insisted, "were responsible for many colonial wars, but also for the fact that a general conflagration was avoided. . . . Every war, almost, was organized by financiers; but peace also was organized by them."[29] The capacity of financiers to organize peace effectively, however, was conditional upon, and strictly limited by, geopolitical circumstances.

> In the nineties *haute finance* was at its peak and peace seemed more secure than ever. . . . Not for long. . . . [In the early 1900s, the] Concert of Europe . . . was finally replaced by two hostile power groupings; the balance of power as a system had now come to an end. With only two competing power groups left its mechanisms ceased to function. . . . About the same time the symptoms of the dissolution of the existing form of world economy—

colonial rivalry and competition for exotic markets—became acute. The ability of *haute finance* to avert the spread of wars was diminishing rapidly. . . . It was only a question of time before the dissolution of nineteenth century economic organization would bring the Hundred Years' peace to a close.[30]

This interpretation of the causes of the First World War is echoed in David Landes's assessment that the shift in the actual balance of power in Europe

underlay the gradual re-forming of forces that culminated in the Triple Entente and Triple Alliance; it nourished the Anglo-German political and naval rivalry, as well as French fears of their enemy east of the Rhine; it made war probable and did much to dictate the membership of the opposing camps.[31]

Nevertheless, in Polanyi's view, the capacity of high finance to avert a general war among the Great Powers was narrowly limited, not just by geopolitical circumstances but also and especially by the contradictions and *unintended* consequences of the policy prescriptions of the liberal creed. Key in this respect was the contradiction between international free trade and the spread of the gold standard. Polanyi emphasizes this contradiction with special reference to the failure of post–First World War attempts to reestablish the nineteenth-century world order.

For over a decade the restoration of the gold standard had been the symbol of world solidarity. . . . Although everybody agreed that stable currencies ultimately depended upon the freeing of trade, all except dogmatic free traders knew that measures had to be taken immediately which would inevitably restrict foreign trade. . . . *While the intent was the freeing of trade, the effect was its strangulation*. . . . The whole arsenal of restrictive measures, which formed a radical departure from traditional economics, was actually the outcome of conservative free trade purposes.[32]

Polanyi does not discuss this contradiction with specific reference to the tensions that led to the First World War. He nonetheless notes how "the actual use of the gold standard by Germany [in the 1870s] marked the beginnings of an era of protectionism and colonial expansion."[33] Moreover, he premises the above discussion of the contradiction in the postwar period with the claim that "the postwar obstacles to peace and stability derived from the same sources from which the Great War itself sprung."[34] Although Polanyi could have been more explicit about these common "sources" of the Great War and the subsequent breakdown of the nineteenth-century world order, his main line of argument is clear enough and may be summed as follows.

At the level of interstate relations, the utopian character of the belief in a self-regulating market was especially evident in the practical impossibility for most countries to adhere simultaneously to free trade and to the gold standard. In the course of the Great Depression of 1873-96 a growing number of states followed the prescription of British political economy to subject monetary circulation in their domestic economies to the self-regulating mechanism of a metallic standard. They could do so, however, only by departing ever more radically from free trade practices in favor of protectionism, mercantilism, and territorial expansion overseas. By transferring competition from the sphere of interenterprise relations to that of interstate relations, this departure undermined and eventually overwhelmed the ability of high finance to avert a general war among the Great Powers. According to this interpretation, the First World War was thus not the outcome of Anglo-German competition in world markets as such. Rather, it was the joint outcome of changes in the mechanisms of the balance of power and of the spread of an ideology that preached free trade but unwittingly sacrificed free trade to the gold standard.

Following the same line of argument, Polanyi went on to maintain that the outcome of the First World War eased the tension superficially by eliminating German competition but aggravated its underlying causes by making the world market system even less reliable than it already was. That system "had haltingly functioned since the turn of the century, and the Great War and the Treaties had wrecked it finally." Attempts to revive it through the restoration of the gold standard ended up precipitating its terminal crisis.[35]

When in 1929 the collapse of the Wall Street boom and the ensuing slump in the U.S. economy brought to a halt U.S. foreign lending and investment, one country after another was forced to protect its currency either by depreciation or exchange control to cope with sudden recalls or flights of short-term funds. Spurred by the passage in the U.S. Senate of the astronomical Smoot Hawley Tariff Bill in 1930, protectionism became rampant and the pursuit of stable currencies was abandoned.[36] The suspension of the gold convertibility of the British pound in September 1931 led to the final destruction of the single web of world commercial and financial transactions on which the fortunes of the City of London were based, and world capitalism retreated "into the igloos of its nation-state economies and their associated empires."[37]

This is what Polanyi calls the "world revolution" of the 1930s. Its main landmarks were the disappearance of *haute finance* from world politics, the collapse of the League of Nations in favor of autarchic empires, the rise of Nazism in Germany, the Soviet Five Years Plans, and the launching of the New Deal in the United States.

> While at the end of the Great War nineteenth century ideals were paramount, and their influence dominated the following decade, by 1940 every vestige of the international system had disappeared and, apart from a few enclaves, the nations were living in an entirely new international setting.[38]

In order to assess the relevance of Polanyi's double movement to an understanding of our time, we must first assess how accurate is the above account of its actual working in the "long" nineteenth century. The most serious problem with the account is that, *insofar as Britain was concerned*, there was nothing doctrinaire, let alone extravagant, in the unilateral adoption of free trade. As the leader of the Tory protectionists, Disraeli, declared in 1846, even Cobden knew that "there [was] no chance of changing the laws of England with abstract doctrine." Something more substantial than "scientifically" demonstrated truth was required to convert the British parliament to the principles of free trade.[39]

The main reason the British parliament and the British public at large were converted to the principles of free trade, and doggedly stuck to them, is that Britain was better positioned than any other country to "internalize" the benefits and "externalize" the costs of a self-regulating market on a world scale. This positional advantage rested on British primacy in three interconnected spheres: industry, finance, and empire building. Although Polanyi does refer occasionally to these three kinds of primacy, he misses their *joint* action in ensuring that Britain would gain rather than lose from practicing the liberal creed.

Pace Polanyi, the English nation was not so naive as to believe that "some vaguely conceived world unity of the future" would guarantee the largest and cheapest possible supplies of food for its working classes and of raw materials for its industries. Nor was it so naive as to believe that these supplies, along with "its superior inventive and productive ability," would enable Britain "to undersell the whole world," thereby minimizing industrial dislocations at home. These beliefs were undoubtedly part of the rhetoric of free trade. Underneath the rhetoric, however, lay the understanding that Britain would greatly benefit from practicing unilateral free trade, because this practice was essential to strengthening Britain's role as the central entrepôt of world commerce and finance and because its world-encompassing overseas empire, especially its empire in India, provided Britain with the resources needed to minimize the domestic costs and dislocations of free trade.

Britain's role as the central entrepôt of world commerce and finance originated in Britain's growing supremacy in European colonial and overseas trade in the eighteenth and early nineteenth centuries. It nonetheless became truly global in scope only when Britain adopted free trade. In the twenty years following the repeal of the Corn Laws in 1846 and of the Navigation Acts in 1849, close to one-third of the exports of the rest of the world went to Britain. Massive and rapidly expanding imports cheapened the costs of vital supplies in Britain, while providing the means of payment for the rest of the world to buy British manufactures. A large and growing number of states and territories were thus "caged" in a world-scale division of labor that strengthened each one's interest in participating in the British-centered global market, the more so as that market became virtually the sole source of critical inputs and sole outlet for remuneratively disposing of outputs.[40]

If unilateral free trade enabled Britain to consolidate and expand its role as the central commercial and financial entrepôt of the world, it was its overseas empire that provided Britain with the flexibility and resources needed to keep expanding the sway of the British-centered global market and to practice free trade unilaterally in spite of persistent deficits in its balance of trade.[41] Critical in both respects was Britain's Indian empire. India's huge demographic resources buttressed Britain's global power both militarily and financially. Militarily, in Lord Salisbury's words, "India was an English barrack in the Oriental Seas from which we may draw any number of troops without paying for them."[42] Paid for entirely by the Indian taxpayer, these troops were organized in a European-style colonial army and used regularly in the endless series of wars through which Britain opened up Asia and Africa to Western trade, investment, and influence.[43] They were "the iron fist in the velvet glove of Victorian expansionism . . . the major coercive force behind the internationalization of industrial capitalism."[44]

Equally important, the infamous Home Charges and the Bank of England's control over India's foreign exchange reserves jointly turned India into the "pivot" of Britain's global financial and commercial supremacy. India's balance of payments deficit with Britain and surplus with the rest of the world enabled Britain to settle its deficit on current account with the rest of the world. Without India's forcible contribution to the balance of payments of Imperial Britain, it would have been impossible for the latter "to use the income from her overseas investment for further investment abroad, and to give back to the international monetary system the liquidity she absorbed as investment income." Moreover, Indian monetary reserves "provided a large *masse de manoeuvre* which British monetary authorities could use to supplement their own reserves and to keep London the centre of the international monetary system."[45]

The advantages of unilateral free trade for Imperial Britain became especially evident during and after the Great Depression of 1873-96—in Landes's words, "the most drastic deflation in the memory of man." The collapse of commodity prices brought down returns to capital. Profits shrank and interest rates fell so low as to induce economists "to conjure with the possibility of capital so abundant as to be a free good."[46] As previously noted, in Polanyi's own account this was the time when the countermovement against the disruptions of the world market gained momentum and Britain's industrial supremacy began to be undermined. And yet British business could easily meet the challenge of intensifying competition in industrial production by specializing more fully in the high-value-added activities associated with Britain's role as the central entrepôt of world commerce and finance. As Eric Hobsbawm notes, it was precisely at this time of waning industrial supremacy that

> [Britain's] finance triumphed, her services as shipper, trader, insurance broker, and intermediary in the world's system of payments, became more indispensable. Indeed, if London ever was the real economic hub of the world, the pound sterling its foundation, it was between 1870 and 1913.[47]

As Halford Mackinder pointed out at the turn of the century in a speech delivered to a group of London bankers, the industrialization of other countries enhanced the importance of a single clearing house. And the world's clearing house

> will always be where there is the greatest ownership of capital. This gives the real key to the struggle between our free trade policy and the protection of other countries—we are essentially the people who have capital, and those who have capital always share in the activity of brains and muscles of other countries.[48]

This was certainly the case on the eve of the First World War, when nearly one-half of Britain's assets were overseas and about 10 percent of its national income consisted of interest on foreign investment.[49]

These are the years that went down in memory as the good old days—the Edwardian era, *la belle époque*. The emergence and consolidation of Polanyi's *haute finance* as a key social instrumentality of the enlarged reproduction of the *Pax Britannica* and of a British-centered global market were key aspects of this *belle époque*. Such were the advantages of unilateral free trade for Imperial Britain, that the protectionist countermovement never had a chance of becoming hegemonic among its ruling or even subaltern classes.[50] Britain was and remained to the bitter end the epicenter of the free trade movement. To paraphrase Hobsbawm, Britain never actually abandoned the free trade system it had created; rather, it was the world that abandoned Britain.[51]

The world began abandoning Britain's free trade system soon after its establishment. The epicenters of the protectionist countermovement were the two rising powers that posed the greatest challenge to Britain's world hegemony: the United States, which had never really joined the free trade movement, and newly created Imperial Germany, which abandoned it shortly after adopting the gold standard in the 1870s. The eventual breakdown of the British-centered world market can only be understood in the light of the triangular struggle for world hegemony between Britain and these two rising powers. As argued in detail elsewhere,[52] this struggle did not just lead to a steep increase in the protection costs of Britain's overseas empire. It also generated demands for improvement and empowerment among the world's subordinate groups and strata that could be neither repressed nor accommodated within the structures of Britain's free trade imperialism. Polanyi's "world revolution" may indeed have started in the 1930s, as he maintains. It was nonetheless completed only in the late 1940s with the establishment of a new world order, centered on and organized by the United States, capable of selectively accommodating/repressing these demands.

Table 1
Comparison of Hegemonic States' Relation to the Global Political Economy

	World System of Rule and Accumulation	
	United Kingdom Centered	United States Centered
Predominant structural relation	Entrepôt/complementary	Self-centered/competitive
Main instrument of reorganization	Unilateral free trade/ colonial tribute	Negotiated trade liberalization/ foreign direct investment
Main constraint on capacity to reorganize	Balance of power/ interimperialist rivalries	Social power of subordinate groups/communist and nationalist challenges

THE DEMISE AND RESURGENCE OF THE LIBERAL CREED UNDER U.S. HEGEMONY

The operation of Polanyi's double movement under U.S. hegemony presents both similarities and differences with its operation under British hegemony. Similarities can be detected primarily in the fact that since about 1980 the United States has been both the main propagator of the utopian belief in a self-regulating world market and the main beneficiary of the actual spread of that belief. Differences concern primarily the fact that even at the height of its liberal crusade the United States did not adhere unilaterally to the precepts of the liberal creed, as Britain did in the late nineteenth and early twentieth centuries. While incessantly preaching to others the advantages of behaving by those precepts, the United States has generally chosen either not to adopt them at all—as in the refusal to subject the creation of money to an automatic mechanism—or to adopt them through carefully negotiated agreements with other states, as in the liberalization of foreign trade.

Historically, differences came first and have all along been more important than similarities. The departure of U.S. hegemony from the principles and practices of nineteenth-century liberalism in favor of greater governmental responsibility for economic regulation and for the welfare of subjects has been widely noted.[53] As we shall see in the next section, under U.S. hegemony subordinate social forces have indeed exercised a far greater constraining influence on the tendency toward self-regulating markets than they did under British hegemony. For now, however, let us focus on the little noticed relationship between the U.S. departure from the principles and practices of nineteenth-century liberalism and major differences in the structure and organization of the U.K.-centered and the U.S.-centered global systems of rule and accumulation. Table 1 offers a preview of the most important among these differences, along with the differences in the main constraint on the hegemonic power's capacity to reorganize the system.

As we have argued earlier, Britain's unilateral adherence to free trade principles can be traced, on the one hand, to its highly beneficial effects on Britain's role as the commercial and financial entrepôt of the global economy and, on the other hand, to the role that tribute from India played in enabling Britain to avoid the costs and dislocations of self-regulating markets. At the height of its hegemony from the late 1940s through the 1960s, in contrast, the United States exercised no entrepôt functions of global significance; nor did it have an empire from which to extract coercively military manpower and means of payments. It was instead the "container" of a self-centered, largely self-sufficient, continent-sized economy.

A major aspect of this difference was underscored by a Study Group established in the early 1950s under the sponsorship of the Woodrow Wilson Foundation and of the National Planning Association. In challenging the assumption "that a sufficiently integrated world economic system could be again achieved by means essentially similar to those employed in the 19th century," it pointed out that the United States—although a "mature creditor" like nineteenth-century Britain—had an altogether different relationship to the world than Britain. The latter was

> fully integrated into the world economic system and in large measure making possible its successful functioning owing to [its] dependence on foreign trade, the pervasive influence of its commercial and financial institutions, and the basic consistency between its national economic policies and those required for world economic integration.

The United States, in contrast, is

> only partially integrated into the world economic system, with which it is also partly competitive, and whose accustomed mode and pace of functioning it tends periodically to disturb. No network of American commercial and financial institutions exists to bind together and to manage the day-to-day operations of the world trading system.[54]

This self-centered, largely self-sufficient, continent-sized economy neither could afford nor needed to promote the liberalization of trade through the unilateral opening up of its domestic market to the exports of the whole world, as Britain had done. It could not afford a unilateral opening of its domestic market, because such a policy would have seriously undermined the coherence and self-centeredness of the U.S. national economy, on which U.S. world power and the U.S. labor-capital accord depended. And it did not need such an opening, because it could reorganize the world economy around itself with other and more effective means than those available to Britain.

One such means was the very size of the U.S. domestic economy in comparison with that of all other national economies. By 1948, U.S. national income was more than twice the combined national income of Britain, France, Germany, Italy, and the Benelux countries, and more than six times that of the USSR.[55] An imbalance of this order clearly provided the United States with considerable leverage in inducing other states to enter into negotiations for the liberalization of trade and to yield to U.S. pressure in the course of the negotiations.

Another means was U.S. primacy in the formation of vertically integrated, multidivisional, transnational corporations. These corporations can conquer foreign markets through direct investment even when the markets are protected from foreign imports. For this reason, the primary concern of the U.S. government in the immediate postwar years was the formation in Europe of a market big enough to make profitable the methods of mass production and distribution typical of the vertically integrated U.S. corporation.[56] In this pursuit, the U.S. government was willing to tolerate some discrimination against the import of U.S. goods in the newly created Common Market. But it was not willing to tolerate discrimination against the transplant of U.S. corporations within the walls of that market.[57]

Finally, in promoting the liberalization and expansion of world trade the United States could rely on its unchallengeable military primacy vis-à-vis its allies in the confrontation with the USSR. "If before the war America's military had only sporadic significance in the world's conflicts," notes Franz Schurmann, "after the war its nuclear umbrella backed by high-technology conventional forces terrorized one part of the world and gave security to the other."[58] From this position of military strength, the United States could and did mobilize its allies and vassals into bilateral and multilateral agreements that over time have liberalized international trade and investment more effectively than British free trade imperialism ever did.

Although international trade and investment have been liberalized more effectively under U.S. than under British hegemony, U.S. foreign trade itself has never been liberalized to the same extent as British trade was. U.S. agricultural self-sufficiency and competitiveness in the global economy have been buttressed right up to the present through a program of subsidies to U.S. producers of grain and cotton that had no parallel in Britain after the mid-1840s. Moreover, as competitive pressures on U.S. manufacturers intensified, the United States entered into an agreement with other high-income countries (the International Multi-Fiber Arrangement of 1973) that placed strong restrictions on textile imports from lower income countries, in open violation of the GATT principle of nondiscrimination. More important, Section 301 of the Trade Act of 1974 empowered the U.S. government to take punitive action against countries that in its judgment were "unfair" traders. Often used directly, Section 301 was most effective as a threat that induced trading partners—especially East Asian countries—to accept so-called voluntary export restraints (VERs).[59] An absolute novelty in the annals of international trade, VERs are one of the most distinctive expressions of the unprecedented concentration of world economic and military power that has characterized U.S. hegemony relative to its predecessors.[60]

The establishment of the Cold War world order thus left little room for Polanyi's double movement, because the new hegemonic power had a radically different relationship to the global political economy than Britain did in the nineteenth century. Indeed, the establishment of U.S. hegemony largely fulfilled the conditions for the emergence of what Polanyi considered the "only alternative" to the "disastrous condition of affairs" of the interwar period, namely, "the establishment of an international order endowed with an organized power which would transcend national sovereignty." Such a course, Polanyi claimed, "was entirely beyond the horizon of the time. No country in Europe, not to mention the United States, would have submitted to such a system."[61] And yet, as Polanyi was writing, the Roosevelt administration was already sponsoring the formation of interstatal organizations that foreshadowed such a system. As it turned out, neither the Bretton Woods nor the UN organizations established in the mid-1940s were empowered to exercise the kind of world-governmental functions that Roosevelt had envisaged. Nevertheless, the exceptional world power of the United States at the end of the Second World War enabled the U.S. government itself to exercise those functions effectively for about twenty years. The prodigious expansion of world trade and production that occurred during those twenty years provides strong evidence in support of Polanyi's contention that world markets can yield positive rather than disastrously negative results only if they are governed and that the very existence of world markets for any length of time requires some kind of world governance.[62]

It is not surprising that during those twenty years the belief in self-regulating markets lay in complete disrepute. What may seem surprising is that less than ten years after President Nixon declared "we are all Keynesians now," the United States started promoting a resurgence of the liberal creed. This turnabout raises two main questions. First, what prompted the United States to promote the revival of the liberal creed, in spite of the radically different world-historical conditions of its hegemony in comparison with those of nineteenth-century British hegemony? And second, how have these different conditions affected the operation of Polanyi's double movement? We shall deal with the second question in the concluding section of the article and concentrate for now on the first question.

The U.S.-sponsored revival of the liberal creed was primarily a response to the crisis of U.S. hegemony of the 1970s. As we argued in detail elsewhere,[63] the crisis was simultaneously a crisis of profitability and a crisis of legitimacy. The crisis of profitability was due primarily to the worldwide intensification of competitive pressures on capitalist enterprises (including U.S. multinational corporations) that ensued from the great expansion of world trade and production of the 1950s and 1960s. We concur with Robert Brenner's claim that the crisis of profitability of the late 1960s and early 1970s sprung from the same source as the preceding world economic expansion: the process of "uneven development" whereby Western European countries and Japan successfully "caught up" with prior U.S. developmental achievements.[64]

Focusing on Germany and Japan, Brenner argues that the capacity of these countries to combine the high-productivity technologies pioneered by the United States with the large, low-wage, and elastic labor supplies that crowded their comparatively backward rural and small business sectors pushed up their rate of profit and investment. Through the early 1960s this tendency did not affect negatively U.S. business, because "goods produced abroad remained for the most part unable to compete in the US market and because US producers depended to only a small extent on overseas sales."[65] Indeed, the rapid economic expansion of Western Europe and Japan created profitable outlets for U.S. multinationals and banks, new export opportunities for domestically based U.S. manufacturers, and ideological resources for the U.S. government in the Cold War. Through the early 1960s uneven development, in the sense in which Brenner uses the expression, was thus a positive-sum game that buttressed "a symbiosis, if a highly conflictual and unstable one, of leader and followers, of early and later developers, and of hegemon and hegemonized."[66]

By the mid-1960s, in contrast, Germany and Japan had not just caught up with but had "forge[d] ahead of the US leader . . . in one key industry after another—textiles, steel, automobiles, machine tools, consumer electronics."[67] More important, the newer, lower cost producers based in these and other follower countries began "invading markets hitherto dominated by producers of the leader regions, especially the US and also the UK."[68] As a result of this irruption of lower priced goods into the United States and world markets, between 1965 and 1973 U.S. manufacturers experienced a decline of more than 40 percent in the rate of return on their capital stock.[69] U.S. manufacturers responded to this intensification of competition by pricing products below full cost (that is, by seeking the established rate of profit only on their circulating capital), by repressing the growth of wage costs, and by updating their plant and equipment. Ultimately, however, the most decisive U.S. weapon in the incipient competitive struggle was a drastic devaluation of the U.S. dollar against the German mark (by a total of 50 percent between 1969 and 1973) and the Japanese yen (by a total of 28.2 percent between 1971 and 1973). This massive devaluation, Brenner claims, secured "the kind of turnaround in relative costs that [the U.S. manufacturing sector] had been unable to achieve by way of productivity growth and wage restraint."[70]

The devaluation had a galvanizing effect on the U.S. economy. Profitability, investment growth, and labor productivity in manufacturing staged a comeback, and the U.S. trade balance was restored to a surplus. The impact on the German and Japanese economies was just the opposite. The competitiveness of their manufacturers was sharply curtailed, so that it was now their turn "to forego their high rates of return if they wished to maintain their sales." The global crisis of profitability was not overcome, but its burden was distributed more evenly among the main capitalist countries.[71] Indeed, Brenner claims that since the early 1970s the devaluation and revaluation of national currencies have been key instruments in the competitive struggle through which the main capitalist countries have sought to shove off upon others the burden of a persistently depressed overall rate of profit.[72]

Although Brenner does not compare what he calls the Long Downturn or Persistent Stagnation of 1973-93[73] with the Great Depression of 1873-96, such a comparison is germane to our present concerns. Both were lengthy periods of reduced profitability, both were characterized by a worldwide intensification of competitive pressures on capitalist enterprise, and both were preceded by an exceptionally sustained and profitable expansion of world trade and production. Moreover, in both periods the crisis of profitability and the intensification of competition sprang from the same sources as the preceding expansion: the successful "catching up" of some laggard countries with developmental achievements previously "monopolized" by a leading country. Once we substitute the United Kingdom for the United States as the leading country, and the United States and Germany for Germany and Japan as the laggard countries, Brenner's interpretation of the late-twentieth-century crisis of profitability applies to the crisis of the late nineteenth century as well. As Landes noted with reference to the latter,

> This shift from monopoly to competition was probably the most important single factor in setting the mood for European industrial and commercial enterprise. Economic growth was now also economic struggle—struggle that served to separate the strong from the weak, to discourage some and toughen others, to favour the new . . . nations at the expense of the old. Optimism about the future of indefinite progress gave way to uncertainty and a sense of agony.[74]

In spite of these basic similarities, the competitive struggle in the course of the two Great Depressions unfolded along radically different paths. As previously noted, in 1873-96 the main form of interenterprise competition was a "price war" that resulted in "the most drastic deflation in the memory of man." Closely related to this tendency, the governments of the main capitalist countries subjected their currencies to the self-regulating mechanisms of a metallic standard, thereby surrendering the devaluation and revaluation of currencies as a means of the competitive struggle. Increasingly, however, governments became active supporters of their domestic industries through protectionist and mercantilist practices, including and especially the building of overseas colonial empires, thereby undermining the unity of the world market.

In all these respects, the competitive struggle during the late-twentieth-century Long Downturn unfolded in a radically different direction. Especially in the 1970s, commodity prices generally rose instead of falling. Although inflationary pressures were contained in the 1980s and 1990s, prices continued to rise through the Long Downturn. At the outset of the Downturn the last tenuous link between monetary circulation and a metallic standard—the gold-dollar exchange standard established at Bretton Woods—was severed and never again restored. The governments of the main capitalist countries were thus in a position to use the devaluation and revaluation of currencies as means of the competitive struggle. And while they did so systematically, they nonetheless continued to promote the integration of the world market through a series of negotiations that further liberalized world trade and investment and eventually resulted in the formation of the World Trade Organization (WTO).

The belief in free markets propagated by the United States since 1980 was in some measure an ideological support of this process of continuing liberalization of international trade and investment. This process, however, had been going on since the 1950s without any fundamental discontinuity that could explain the sudden liquidation of Keynesianism in favor of "the magic of the market"—a lowbrow version of the nineteenth-century utopian belief in "man's salvation through the self-regulating market." In order to explain this sudden change something else is needed. This something else is the disastrous effects that the abandonment of the gold-dollar exchange standard and the great inflation of the 1970s had on the ongoing crisis of U.S. hegemony. As Brenner maintains, the massive devaluation of the dollar of 1969-73 did help the United States in shoving the burden of the crisis of profitability off onto Germany and Japan. The crisis of profitability, however, was only one component of a broader crisis of U.S. hegemony—a crisis that was deepened rather than alleviated by the massive devaluation of the dollar.

The other main component of this broader crisis was the difficulties—as much social and political as economic—that the U.S. government faced in containing the joint challenge of nationalism and communism in the Third World. These difficulties reached their climax in the same years as the crisis of profitability, when the escalation of the war on Vietnam failed to break the back of Vietnamese resistance and provoked instead widespread opposition to the war in the United States itself. The collapse of the Bretton Woods regime of fixed exchange rates and the massive devaluation of the U.S. dollar that ensued were as much the result of the escalating costs of that war—including the costs of programs aimed at stemming the tide of domestic opposition to the war—as they were the result of U.S. responses to the crisis of profitability.[75] At least initially they did succeed in sheltering U.S. business from competitive pressures and even seemed to endow the U.S. government with an unprecedented freedom of action in tapping the resources of the rest of the world simply by issuing its own currency.[76] Nevertheless, they could not prevent the defeat of the United States in Vietnam or stop the precipitous decline of U.S. prestige and power in the wake of that defeat. Indeed, if anything, they worsened the decline by provoking a worldwide inflationary spiral that threatened to destroy the whole U.S. credit structure and worldwide networks of capital accumulation on which U.S. wealth and power had become more dependent than ever before.[77]

The decline of U.S. power and prestige reached its nadir in the late 1970s with the Iranian Revolution, a new hike in oil prices, the Soviet invasion of Afghanistan, and a new serious crisis of confidence in the U.S. dollar. It was in this context that in the closing years of the Carter administration, and then with greater determination under Reagan, there occurred a drastic change in U.S. policies. While avoiding the kind of confrontation on the ground that had led to defeat in Vietnam, the U.S. government initiated an escalation of the armament race with the USSR well beyond what the latter could afford economically. More important, the U.S. government began resorting to economic policies—a drastic contraction in money supply, higher interest rates, lower taxes for the wealthy, and virtually unrestricted freedom of action for capitalist enterprise—that liquidated not just the legacy of the domestic New Deal but also and especially the legacy of the Fair Deal for poor countries launched by Truman in 1949.[78]

Through these policies the U.S. government started to compete aggressively for capital worldwide to finance a growing trade and current account deficit in the U.S. balance of payment, thereby provoking a sharp increase in real interest rates worldwide and a major reversal in the direction of global capital flows. From being the main source of world liquidity and of direct investment in the 1950s and 1960s, in the 1980s the United States became the world's main debtor nation and by far the largest recipient of foreign capital. The extent of the reversal can be gauged from the change in the current account of the U.S. balance of payments.[79] In the five-year period 1965-69 the account still had a surplus of $12 billion, which constituted almost half (46 percent) of the total surplus of G7 countries. In 1970-74, the surplus contracted to $4.1 billion and to 21 percent of the total surplus of G7 countries. In 1975-79, the surplus turned into a deficit of $7.4 billion. After that the deficit escalated to previously unimaginable levels: $146.5 billion in 1980-84, $660.6 billion in 1985-89, falling back to $324.4 billion in 1990-94, before swelling to $912.4 billion in 1995-99.[80]

This was a reversal of historic proportions that restructured fundamentally the relationship of the United States to the global economy. The most important aspect of this restructuring was the transformation of the United States into a global financial entrepôt. As noted earlier, Britain had played that role throughout its world hegemony. Its position as the world's clearing house, however, became especially important when the industrial advances of laggard countries undermined Britain's position as the workshop of the world. It was indeed further specialization as a global financial intermediary that enabled Britain to consolidate its centrality in the global economy and enjoy what went down in memory as the Edwardian *belle époque*.

Unlike Britain, at the height of its industrial supremacy the United States did not play the role of global financial entrepôt. Nevertheless, as laggards caught up with U.S. industrial achievements, and competitive pressures in industrial activities intensified, the United States too began specializing in financial activities—a specialization that eventually resulted in the United States' own *belle époque*. Already in the late 1960s and early 1970s, U.S. business showed the typical disposition of all previous leaders of world-scale processes of accumulation when challenged by intensifying competition. It tended, that is, to retain in liquid form a growing proportion of its incoming cash flows.[81] This heightened liquidity preference was in itself a condition favorable to the transformation of U.S. capital into the leading agency of the incipient world financial expansion. Two other conditions were nonetheless necessary for the United States to become the world's financial entrepôt. One was the adoption by the U.S. government of fiscal and monetary policies that would attract rather than repel mobile capital from all over the world—including the growing mass of liquidity that U.S. multinationals were "parking" in offshore money markets. And the other condition was the adoption by as many other governments as possible of policies that would facilitate the flow of capital into and out of U.S. financial markets.

The first condition was fully established by the radical change in U.S. economic policies of 1979-82 discussed above. The massive redirection of capital flows toward the United States that ensued was in itself a powerful stimulant for the establishment of the second condition. For in the 1970s the combination of depressed profits in First World countries and loose U.S. monetary policies had resulted in massive lending to select Third (and Second) World countries. When the United States reversed its monetary policies and started to compete aggressively in world financial markets, the "flood" of capital of the 1970s turned into the "drought" of the 1980s.[82] First signaled by the Mexican default of 1982, the drought created a propitious environment for the capital-friendly change in policies that the so-called Washington Consensus began advocating at about the same time.

Taking advantage of the financial straits of many low- and middle-income countries, the agencies of the Washington Consensus invited them to abandon the statist and inward-looking strategies thus far advocated by development theory. It invited them to play instead by the rules of an altogether different game—that is, to open up their national economies to the cold winds of intensifying world-market competition and to outcompete other countries in granting capitalist enterprise the greatest possible freedom of movement and action. From the standpoint of the United States, these new strategies promised to widen and deepen the reach of the forming U.S. global financial entrepôt, and thus increase the effectiveness of financialization in reviving U.S. wealth and power. How they would also improve the chances of success of Third and Second World countries' efforts to catch up with First World standards of wealth was far less clear. As we shall see, they did not. Initially, however, disenchantment with the old strategies, intensifying competitive pressures, or sheer lack of credible alternatives induced lower income countries to believe in the "magic of the market" and to try their chances with the new rules of the game.[83]

THE REVIVAL OF POLANYI'S DOUBLE MOVEMENT

As in the nineteenth century, the movement toward allegedly self-regulating markets (now masquerading under the label "globalization") has called forth a countermovement of protection from the disruptions caused by intensifying worldwide competition for capital and markets. This double movement, however, has been operating quite differently than under British hegemony. A first crucial difference is that in the late twentieth century subordinate social forces have constrained from the very beginning the movement toward self-regulating markets to a far greater extent than in the nineteenth century.

This constraining influence of subordinate social forces can be seen most clearly at work in the complete abandonment, rather than restoration, of the gold standard, on which the late-twentieth-century liberal crusade was premised. This radical departure from the nineteenth-century liberal creed was not just due to what the ruling classes had learned from the disastrous consequences of the gold standard in the early twentieth century or to the different relationship of the United States to the global economy in comparison with Britain's. It was due also to the social impossibility under contemporary circumstances to subject monetary circulation to the automatic mechanisms of a metallic standard. This social impossibility was undoubtedly one of the reasons why in 1970 the U.S. government abandoned its halfhearted attempts to stem the tide of speculation against the gold-dollar exchange standard and resorted instead to fiscal stimulus and easy credit.[84] But the same social impossibility was most evident in the country that in the 1960s had become the staunchest advocate of a return to a pure gold standard, De Gaulle's France. For it is no coincidence that French advocacy of the gold standard ended abruptly, never to be revived again, in May 1968, when De Gaulle had to grant a huge wage hike to prevent labor from siding with the rebellious students. Had monetary circulation been subject to the automatic mechanism of a metallic standard, such a wage hike would have been impossible. Being perfectly aware of this, De Gaulle did what was necessary to restore social peace and stopped daydreaming about a return to the gold standard. As these and other national experiences suggest, the social countermovement in the late twentieth century anticipated (rather than followed, as in the nineteenth century) the movement toward self-regulating markets, thereby limiting its scope and neutralizing in advance some of its potentially most destructive aspects.[85]

Partly related to the above, an even more crucial difference between the present and past operation of Polanyi's double movement is that the primary force in the destabilization of the U.K.-centered global market—the imperialism and half-conscious preparation for autarchy of rising capitalist powers more and more dependent upon an increasingly unreliable system of world economy—is virtually absent in the contemporary countermovement against the disruptions of the U.S.-centered global market. This absence can be traced to a number of circumstances, including the unprecedented centralization of global military power in the hands of the United States, the equally unprecedented integration of the capitalist powers in dense transnational networks of production and accumulation, and the increasing dependence of the capitalist powers, old and new, on one another's resources for the reproduction of their privileged status in the global political economy. We are not saying that there are no quarrels among capitalist powers over the pace and direction of the process of world market formation. We simply do not see these quarrels becoming the driving force in the reversal of that process as it did in the late nineteenth and early twentieth centuries.

What is missing, above all, are the two mutually reinforcing social conditions that underlay the interimperialist rivalries of a century ago. One was the ease with which core capitalist countries could mobilize capital and manpower in the conquest, formation, and consolidation of overseas colonial empires. And the other was the vulnerability of the non-Western world to conquest and subjugation by Western or Westernized military-industrial apparatuses. The destructive capacity of these apparatuses is of course incomparably greater than a hundred years ago. A hugely increased capacity to destroy, however, has been accompanied by a precipitous decline in the capacity of the wealthier capitalist states, the United States included, to control populations on the ground, except at exorbitant social and economic costs relative to benefits. All kinds of cost-benefit *mis*calculations were undoubtedly involved in the escalation of interimperialist rivalries that destabilized and eventually destroyed the U.K.-centered global market system. But for today's capitalist powers to engage in similar rivalries, they would have to make implausible miscalculations.

A more likely source of reversal of the U.S.-centered process of world market formation is the persistent protectionism of the United States itself. As previously noted, even at the height of its crusade for open and free markets the United States has far more preached than practiced the liberal creed. Among the latest instances of this inconsistency, we note the tax break for U.S. exporters that led the WTO to authorize European sanctions on U.S. products worth more than $4 billion, the imposition in March 2002 of a tariff of up to 30 percent on steel imported from outside NAFTA, and the signing two months later of the $190 billion, ten-year farm bill, which greatly increases governmental subsidies to U.S. agricultural production. This is another important difference between the operation of Polanyi's double movement under British and under U.S. hegemony. While Britain consistently adhered to the free trade movement, the United States has been far less consistent, thereby undermining the credibility of its crusade for open and free markets.

Particularly damaging in this respect has been the farm bill of May 2002. Some of the most faithful followers of the neoliberal creed in the world's South—Brazil, South Africa, and Thailand—have protested loudly, "charging the Bush administration with hypocrisy."

> They complained that one minute the United States says it wants developing countries to rely on free trade rather than handouts, the next it enacts a law, which they say is the biggest impediment in the free trade of food, the one commodity all these countries produce. . . . "This is the way of rich countries," said Prakarn Virakul, the agricultural attache of the Thai embassy in Washington. . . . "They tell us to open our markets; we do but they do not stop giving their farmers subsidies. Now American farmers will be given money to grow cheap rice and push down the world price for the next six years. That pushes our farmers out of business."[86]

U.S. inconsistencies are no doubt a major contributing factor to the countermovement for the protection of society. Quite independently of such inconsistencies, however, from Seattle to the recent Latin American wave of protest over free trade,[87] the main driving force of the countermovement has been resistance from the world's South. The reasons are not hard to find. As a distinguished World Bank economist has himself acknowledged, a significant "improvement in policy variables" among "developing countries" since 1980—that is, greater adherence on their part to the neoliberal policies advocated by the Washington Consensus—has been associated not with an improvement but with a sharp deterioration of their economic performance, as witnessed by a fall in the median rate of growth of their per capita income from 2.5 percent in 1960-79 to 0 percent in 1980-98.[88] By far the main cause of this deterioration was the sudden change in world systemic circumstances that occurred around 1980 as a result of the response of the United States to the crisis of the 1970s. Except for China, very few among low- and middle-income countries could withstand U.S. competition in world financial markets.[89] Their increasingly strict and widespread adherence to the precepts of the neoliberal creed facilitated the ongoing massive migration of capital to the United States but did little or nothing to reroute capital in their direction.

This possibility is now entertained even in the columns of *The New York Times*. As Joseph Kahn reports from the United Nations International Conference on Financing and Development, in Monterrey, Mexico,

> Perhaps aside from China, the only country that appears to have benefited unambiguously from the trend toward open markets worldwide is the United States, where a huge inflow of capital has helped allow Americans to spend more than they save, and to import more than they export. "The trend of globalization is that surplus capital is moving from the periphery countries to the center, which is the United States," said George Soros . . . [who] came to Monterrey to persuade leaders to back his idea of creating a $27 billion pool . . . to finance development, especially when private capital flows dry up. "The U.S. government view is that markets are always right," Mr. Soros said. "My view is that markets are almost always wrong, and they have to be made right."[90]

The problem for the casualties of "globalization" is not that "markets are almost always wrong, and they have to be made right." The real problem is that some countries have the power to make the world market work to their advantage, while others do not have that power and have to bear the costs. The weight of those costs has provoked myriad grassroots resistances,[91] but they have also precipitated widespread social breakdowns in the former Second and Third World. At the same time, at the centers of world power, especially in the United States, the "organ" for sensing the danger and awakening the "vital function" of protecting world society has atrophied.[92] The self-protection of society in the core has become the other side of the coin of a process of increasing destabilization in the rest of the world. In the aftermath of the British *belle époque*, the sense of danger—and the will and ability to respond with measures designed to protect world society—was only reawakened through the experience of a long period of systemic chaos. The contemporary tragedy is that humanity is not destined to live through another such period—there are choices that could be made by those with power to avert the catastrophe—yet all the signs are pointing to a more or less imminent plunge into a new phase of global systemic chaos.

NOTES

1. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon, [1944] 1957), 142.
2. See Beverly J. Silver, *Forces of Labor: Workers' Movements and Globalization since 1870* (Cambridge: Cambridge University Press, 2003), chap. 4.
3. See Giovanni Arrighi and Beverly J. Silver (with I. Ahmed et al.), *Chaos and Governance in the Modern World System* (Minneapolis: University of Minnesota Press, 1999), for a detailed comparative analysis of the Dutch, British, and U.S. *belle époques* (or what we there call periods of "world-hegemonic transition"). The middle period (the British *belle époque* or the British-U.S. world-hegemonic transition) is the focus of Polanyi's analysis.
4. Silver, *Forces of Labor*, 16-25.
5. Polanyi, *The Great Transformation*, 165-66.
6. Ibid., 155-56.
7. Antonio Gramsci, *Selections from the Prison Notebooks* (New York: International Publishers, 1971), 181-82.
8. Ibid., 57-58.
9. Polanyi, *The Great Transformation*, 155-56.
10. Ibid., 156.
11. Of course, in Polanyi's narrative such "plunges into utter destruction" were common enough in the 1920s and 1930s, which brings us back to the question of what is the comparative historical frame in which we should be placing contemporary "plunges."
12. Polanyi, *The Great Transformation*, 182-83, 207-8.
13. Ibid., 133.
14. Arrighi and Silver, *Chaos and Governance*, chap. 3 and 4; Silver, *Forces of Labor*, chap. 4.
15. Arrighi and Silver, *Chaos and Governance*.
16. Polanyi, *The Great Transformation*, 138.
17. Power relations at the global level refer primarily to relations among territorially based political communities.
18. Polanyi, *The Great Transformation*, 75.
19. Ibid., 135.
20. Ibid., 138-39.

21. Ibid., 138.
22. Ibid., 76.
23. Ibid., 5.
24. Ibid., 9-11.
25. Ibid., 14.
26. Ibid., 213-14.
27. Ibid., 214, 217.
28. Fred Block, "Introduction," in *The Great Transformation: The Political and Economic Origins of Our Time*, 2d ed., by K. Polanyi (Boston: Beacon, 2001), xxxii, n. 25.
29. Polanyi, *The Great Transformation*, 16.
30. Ibid., 19.
31. David S. Landes, *The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present* (Cambridge: Cambridge University Press, 1969), 327.
32. Polanyi, *The Great Transformation*, 26-27 (emphasis added).
33. Ibid., 19.
34. Ibid., 21.
35. Ibid., 22-27.
36. Charles P. Kindleberger, *The World in Depression, 1929-1938* (Berkeley: University of California Press, 1973), 131-32, 135.
37. Eric Hobsbawm, *Nations and Nationalism since 1780: Programme, Myth, Reality* (Cambridge: Cambridge University Press, 1991), 132.
38. Polanyi, *The Great Transformation*, 23, 27.
39. Quoted in Bernard Semmel, *The Rise of Free Trade Imperialism* (Cambridge: Cambridge University Press, 1970), 146.
40. Eric J. Hobsbawm, *The Age of Capital 1848-1875* (New York: New American Library, 1979), 37-39, 50-54.
41. See, among others, Andre Gunder Frank, "Multilateral Merchandise Trade Imbalances and Uneven Economic Development," *Journal of European Economic History* V, no. 2 (1976): 407-38.
42. B. R. Tomlinson, "India and the British Empire, 1880-1935," *Indian Economic and Social History Review* XII, no. 4 (1975): 337-80 (p. 341 cited).
43. If we take Asia and Africa together, there were as many as seventy-two separate British military campaigns between 1837 and 1900; see Brian Bond, ed., *Victorian Military Campaigns* (London: Hutchinson, 1967), 309-11. By a different count, between 1803 and 1901 Britain fought fifty major colonial wars; see Anthony Giddens, *The Nation-State and Violence* (Berkeley: University of California Press, 1987), 223.
44. David Washbrook, "South Asia, the World System, and World Capitalism," *Journal of Asian Studies* XLIX, no. 3 (1990): 479-508 (p. 481 cited).
45. Marcello de Cecco, *The International Gold Standard: Money and Empire*, 2nd ed. (New York: St. Martin's, 1984), 62-63.
46. Landes, *The Unbound Prometheus*, 231.
47. Eric J. Hobsbawm, *Industry and Empire: An Economic History of Britain since 1750* (London: Weidenfeld & Nicolson, 1968), 125.
48. Quoted in Peter J. Hugill, *World Trade since 1431: Geography, Technology, and Capitalism* (Baltimore: Johns Hopkins University Press, 1993), 305.
49. A. K. Cairncross, *Home and Foreign Investment, 1870-1913* (Cambridge: Cambridge University Press, 1953), 3, 23. As Peter Mathias noted, British foreign investment "was not just 'blind capital' but the 'blind capital' of rentiers organized by financiers and businessmen very much with a view to the trade that would be flowing when the enterprise

was under way." British railway building in the United States, and a fortiori in countries like Australia, Canada, South Africa, and Argentina, "was instrumental in opening up these vast land masses and developing export sectors in primary produce . . . for Britain." Peter Mathias, *The First Industrial Nation: An Economic History of Britain 1700-1914* (London: Methuen, 1969), 329. See also Stanley D. Chapman, *Merchant Enterprise in Britain: From the Industrial Revolution to World War I* (New York: Cambridge University Press, 1992), 233ff. The abundant liquidity that accumulated in, or passed through, British hands was a powerful instrument in the competitive struggle not just in commodity markets but in the armament race as well. From the mid-1840s through the 1860s most technological breakthroughs in the design of warships were pioneered by France. And yet each French breakthrough called forth naval appropriations in Britain that the French could not match, so that it was "relatively easy for the Royal Navy to catch up technically and surpass numerically each time the French changed the basis of the competition." See William McNeill, *The Pursuit of Power: Technology, Armed Force, and Society since A.D. 1000* (Chicago: University of Chicago Press, 1982), 227-28.

50. A. Friedberg, *The Wary Titan: Britain and the Experience of Relative Decline* (Princeton, NJ: Princeton University Press, 1988).

51. Hobsbawm, *Industry and Empire*, 207.

52. Arrighi and Silver, *Chaos and Governance*, especially chap. 1 and 3; also Silver, *Forces of Labor*, chap. 4.

53. John G. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* XXXVI, no. 2 (1982): 379-415; Charles Maier, *In Search of Stability: Explorations in Historical Political Economy* (Cambridge: Cambridge University Press, 1987), 121-52; John G. Ikenberry, "Rethinking the Origins of American Hegemony," *Political Science Quarterly* CIV, no. 3 (1989): 375-400; Lars Mjoset, "The Turn of Two Centuries: A Comparison of British and US Hegemonies," in *World Leadership and Hegemony*, edited by D. P. Rapkin (Boulder, CO: Lynne Reiner, 1990), 21-47; Arrighi and Silver, *Chaos and Governance*, 202-11.

54. William Y. Elliott, ed., *The Political Economy of American Foreign Policy: Its Concepts, Strategy, and Limits* (New York: Henry Holt, 1955), 43.

55. Calculated from W. S. Woytinsky and E. S. Woytinsky, *World Population and Production. Trends and Outlook* (New York: Twentieth Century Fund, 1953), 185-86.

56. Thomas J. McCormick, *America's Half Century. United States Foreign Policy in the Cold War* (Baltimore: Johns Hopkins University Press, 1989), 79-80.

57. Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975), 108.

58. Franz Schurmann, *The Logic of World Power: An Inquiry into the Origins, Currents and Contradictions of World Politics* (New York: Pantheon, 1974), xx.

59. Elisabeth Becker, "A New Villain in Free Trade: The Farmer on the Dole," *The New York Times*, 25 August 2002, sec. IV, p. 10; Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton: Princeton University Press, 2000), 80-82.

60. Far from being abandoned when the United States launched its neoliberal crusade, the use of threats to close the U.S. market as a bludgeon to force leading competitors to limit their exports to the United States and to open their markets to U.S. exports and foreign direct investment intensified in the 1980s. Landmarks in this intensification were the Semiconductor Agreements of 1986 and 1991, the Omnibus Trade and Competition Act of 1988 ("Super 301"), and the Structural Impediments Act of 1989. See Robert Brenner, *The Boom and the Bubble: The U.S. in the World Economy* (New York: Verso, 2002), 60.

61. Polanyi, *The Great Transformation*, 22.

62. Giovanni Arrighi, *The Long Twentieth Century: Money, Power and the Origins of Our Times* (London: Verso, 1994), 327-28.

63. Ibid.; Arrighi and Silver, *Chaos and Governance*; Silver, *Forces of Labor*, 20-21, 151-56, 160-67, 173-77.

64. Robert Brenner, "The Economics of Global Turbulence: A Special Report on the World Economy, 1950-1998," *New Left Review* 229 (May/June 1998): 1-264; Robert Brenner, *The Boom and the Bubble*. Brenner's use of the expression "uneven development" echoes Trotsky's and Lenin's but differs radically from the more common contemporary use to designate the tendency of capitalist development to polarize and diversify geographical space (e.g., along core-periphery lines). See especially Samir Amin, *Unequal Development* (New York: Monthly Review Press, 1976), and Neil Smith, *Uneven Development. Nature, Capital and the Production of Space* (Oxford: Basil Blackwell, 1984).

65. Brenner, "The Economics of Global Turbulence," 91-92.

66. Brenner, *The Boom and the Bubble*, 14-15.

67. Brenner, "The Economics of Global Turbulence," 41.

68. Ibid., 105-8.

69. Ibid., 93.

70. Ibid., 17-24.

71. Ibid., 124, 137.

72. Brenner, *The Boom and the Bubble*, 24-133.

73. Brenner is ambiguous on whether the Long Downturn ended in 1993 or has continued through the present. In his latest book he seems to lean toward the view that the post-1993 U.S. economic revival did not reverse the Long Downturn of the global economy (see especially Ibid., 243-84).

74. Landes, *The Unbound Prometheus*, 240.

75. Arrighi, *The Long Twentieth Century*, 300-308, 320-21; Silver, *Forces of Labor*, 173-77.

76. Riccardo Parboni, *The Dollar and Its Rivals* (London: Verso, 1981), 47, 89-90.

77. Arrighi, *The Long Twentieth Century*, 310-14, 317-20.

78. Philip McMichael, *Development and Social Change: A Global Perspective*, 2d ed. (Thousand Oaks, CA: Sage, 2000). See also Giovanni Arrighi, Beverly J. Silver, and Benjamin D. Brewer, "Industrial Convergence and the Persistence of the North-South Divide," *Studies in Comparative International Development* 38, no. 1 (Spring 2003).

79. Leaving aside "errors and omissions," current account surpluses are indicative of net outflows of capital, and current account deficits are indicative of net inflows.

80. Calculated from International Monetary Fund, *International Financial Statistics Yearbook* (Washington, DC: International Monetary Fund, various years).

81. This disposition was particularly evident in the case of U.S. multinational corporations, whose heightened liquidity preference contributed decisively to the explosive growth of extraterritorial financial markets in the late 1960s and early 1970s. This explosive growth, in turn, was a major factor in the destabilization and eventual breakdown of the gold-dollar exchange standard (see Arrighi, *The Long Twentieth Century*, 301-5, 308-14). The absence of any reference to the disposition of capital to respond to intensifying competition through a heightened liquidity preference is one of the main shortcomings of Brenner's account of the Long Downturn.

82. Suffice it to mention that the success of the United States in attracting capital turned the \$46.8 billion outflow of capital from G7 countries of the 1970s (as measured by their consolidated current account surpluses for the period 1970-79) into an inflow of \$347.4 billion in 1980-89 and of \$318.3 billion in 1990-99 (calculated from International Monetary Fund, various years).

83. Arrighi, Silver, and Brewer, "Industrial Convergence and the Persistence of the North-South Divide." See also John Toye, *Dilemmas of Development. Reflections on the Counter-revolution in Development Economics*, 2d ed. (Oxford: Blackwell, 1993); Philip McMichael, *Development and Social Change*; Sarah Bracking, "Structural Adjustment: Why It Wasn't Necessary and Why It Did Work," *Review of African Political Economy* 80 (1999): 207-26; Manfred Bienefeld, "Structural Adjustment: Debt Collection Devise or Development Policy?" *Review (Fernand Braudel Center)* XXIII, no. 4 (2000): 533-82.

84. Cf. Robert Brenner, "The Economics of Global Turbulence," 120-21.

85. The increased (anticipatory) speed with which the double movement emerged is in line with what we have elsewhere conceptualized as a "speeding up of social history" (Arrighi and Silver, *Chaos and Governance*, chap. 3).

86. Becker, "A New Villain in Free Trade," 10.

87. On the early resistance to structural adjustment programs in the 1980s see John Walton and Charles Ragin, "Global and National Sources of Political Protest: Third World Responses to the Debt Crisis," *American Sociological Review* 55 (December 1990): 876-90. On the more recent countermovement in Latin America, see Juan Forero, "Protest over Free Markets Is Sweeping Latin America," *International Herald Tribune*, 22 July 2002, p. 2. For an assessment of the 1999 anti–World Trade Organization (WTO) protests in Seattle, see Beverly J. Silver and Giovanni Arrighi, "Workers North and South," in *Socialist Register 2001: Working Classes: Global Realities*, edited by Leo Panitch and Colin Leys (London: Merlin, 2001), 53-76.

88. William Easterly, "The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980-1998," *Journal of Economic Growth* 6 (2001): 135-57 (pp. 135-45 cited).

89. China's movement toward integration into the global "self-regulating market" has been accompanied by a strong countermovement for the self-protection of society. The main protagonists of this countermovement are workers who have been laid off from state-owned enterprises, as China's quest for global economic competitiveness has gone hand in hand with massive layoffs and the dismantling of China's welfare state (the smashing of the "iron rice bowl"). On this wave of labor unrest in China, see Dorothy J. Solinger, "WTO and China's Workers" (paper presented at the Woodrow Wilson Center, Washington, D.C., 12 December 2001); Erik Eckholm, "Chinese Warn of Civil Unrest across Country: Communist Party Document Paints Picture of Discontent," *International Herald Tribune*, 2-3 June 2001, pp. 1, 4; and Philip P. Pan, " 'High Tide' of Labor Unrest in China," *The Washington Post*, 21 January 2002, p. A1. For a conceptualization of this wave of labor unrest in China as "Polanyi-type" unrest, see Silver, *Forces of Labor*, 20, 65, 167.

90. Joseph Kahn, "Globalization Proves Disappointing," *The New York Times*, 21 March 2002.

91. See notes 87 and 89.

92. A sign of the atrophy is that even Soros's modest proposal proved too generous for the United States and its wealthy allies. All the United States promised at Monterrey was an increase in foreign aid of $7 to $10 billion a year by 2006 and the Europeans an increase of $10 billion a year also by 2006. If kept, these promises will raise the total foreign aid from rich to poor countries to $70 billion a year at most; "A Fresh Start," *The Economist*, 22 March 2002. Available from www.economist.com/agenda. By comparison, current expenditure of the United States, the European Union, and Japan in subsidies to their farmers is more than five times this amount (calculated from Becker, "A New Villain in Free Trade," 10).

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