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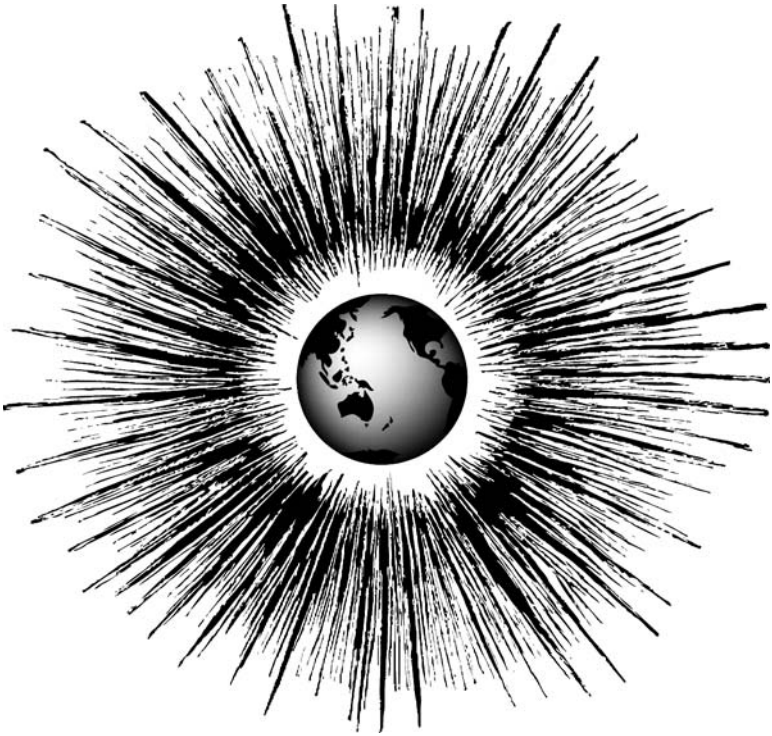

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The main editorial goal of the *Journal of World-Systems Research* is to develop and disseminate scholarly research on topics that are relevant to the analysis of world-systems. We especially want to include works that proceed from several different theoretical stances and disciplines. These include, but are not limited to, civilizationists, evolutionary approaches, international political economy, comparative, historical and cultural analysis. We seek the work of political scientists, historians, sociologists, ethnographers, archaeologists, economists and geographers.

We especially encourage works that take theory seriously by confronting problems of conceptualization and making definitions of concepts explicit, by formulating hypotheses, constructing axiomatic theories and causal models. Theoretical research programs that combine theory construction with comparative research are badly needed to take the world-systems approach beyond the stage of a perspective.

We also want to encourage the application of comparative, quantititave and network-analytic methods to world-systems research, though we will certainly also publish pieces that do not use these methods. Any empirical study that is deemed relevant to world-systems analysis may be published even if it uses a very different conceptual framework.

And finally we also want to publish discussions of future trajectories and options for the modern world-system and considerations of what can be done to create a more humane, peaceful and just world society.

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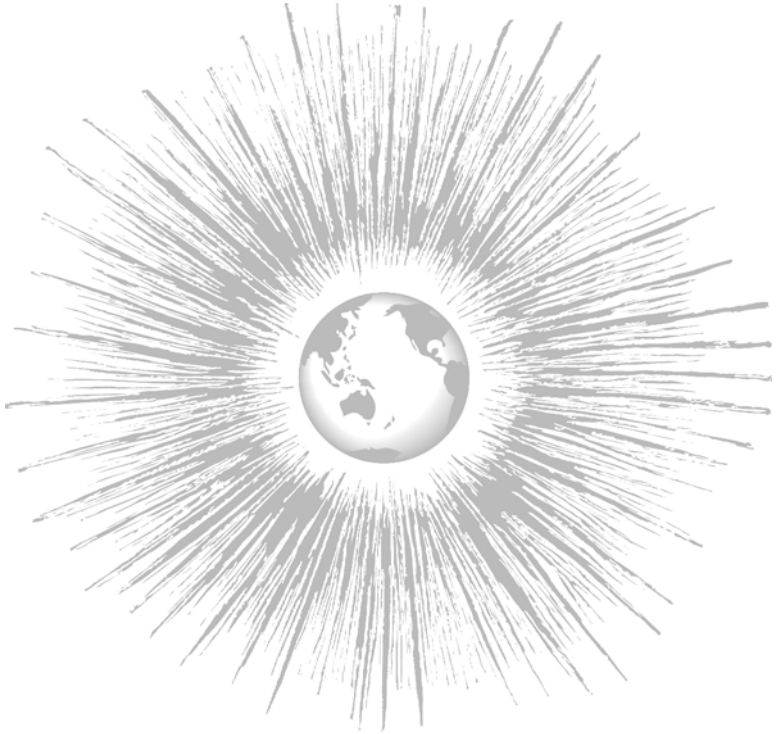

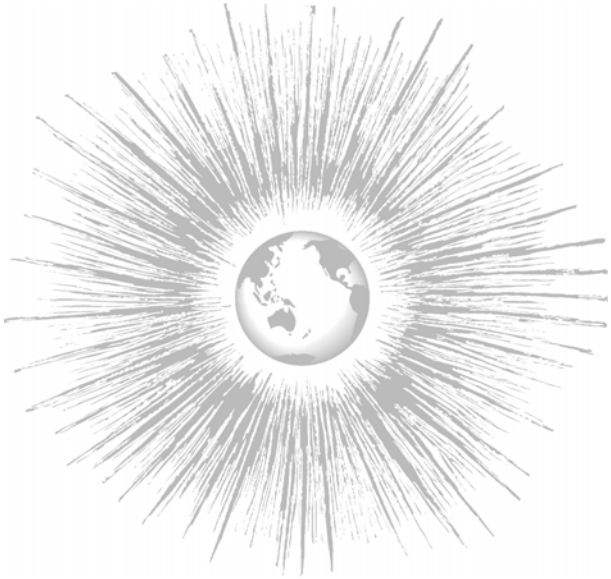

ABSTRACT

The recent shift from 'global villageism' to the 'new wars' revealed a deep crisis in heterodox political economy. The popular belief in neoliberal globalization, peace dividends, fiscal conservatism and sound finance that dominated the 1980s and 1990s suddenly collapsed. The early 2000s brought rising xenophobia, growing military budgets and policy profligacy. Radicals were the first to identify this transition, but their attempts to explain it have been bogged down by two major hurdles: (1) most writers continue to apply nineteenth century theories and concepts to twenty-first century realities; and (2) few seem to bother with empirical analysis.

This paper offers a radical alternative that is both theoretically new and empirically grounded. We use the 'new wars' as a stepping stone to understand a triple transformation that altered the nature of capital, the accumulation of capital and the unit of capital. Specifically, our argument builds on a power understanding of capital that emphasizes differential accumulation by dominant capital groups. Accumulation, we argue, has little to do with the amassment of material things measured in 'utils' or 'abstract labor.' Instead, accumulation, or 'capitalization,' represents a commodification of power by leading groups in society. Over the past century, this power has been re-structured and concentrated through two distinct regimes of differential accumulation—'breadth' and 'depth.' A breadth regime relies on proletarianization, on green-field investment and, particularly, on mergers and acquisitions. A depth regime builds on redistribution through stagflation—that is, on differential inflation in the midst of stagnation. In contrast to breadth which presupposes some measure of growth and stability, depth thrives on 'accumulation through crisis.'

The past twenty years were dominated by breadth, buttressed by neoliberal rhetoric, globalization and capital mobility. This regime started to run into mounting difficulties in the late 1990s, and eventually collapsed in 2000. For differential accumulation to continue, dominant capital now needs inflation, and inflation requires instability and social crisis. It is within this broader dynamics of power accumulation that the new wars need to be understood.

Dominant Capital and the New Wars[1]

Shimshon Bichler
Jonathan Nitzan

The new wars of the early 2000s mark a significant turning point in world affairs. During the 1980s and 1990s, it was popular to talk about the return of 'unregulated capitalism.' It was the dawn of a new era, many said, the era of '*neo*liberal globalization.' The hallmarks of this new-old order appeared unmistakable. Falling budget deficits, tight monetary policy, deregulation, free trade and capital decontrols became the new orthodoxy. The ideological rhetoric spoke of 'democracy,' 'global villageism' and 'peace dividends.' The welfare-warfare state was on its way out. *Laissez faire* was back in fashion. The trajectory seemed so obvious that some were even tempted to announce the 'end of history.'

In the early 2000s, though, the tables suddenly turned. Fiscal and monetary policies were 'loosened,' 'protectionist' measures were reintroduced and the tidal wave of capital flow turned to a trickle. Talk of a 'global village' quickly disappeared and was replaced by a global 'war on terror.' Democracy has given way to Homeland Security. Expectations for peace dividends have dissipated in favor of 'war profits.' History was back with a vengeance.

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1. The first draft of this paper was presented in October 2002 at the YPE Seminar Series at York University. It was submitted to the *JWSR* in June 2003 and accepted for publication in March 2004. During this process, we have received comments from many people, far too numerous to list here, as well as from two anonymous referees of the *JWSR*. We thank them all for their insights. We accept the paper's shortcomings as our own and hope that readers will find them sufficiently important to debate.

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The purpose of this paper is to situate this broad transition within an alternative understanding of capital accumulation. There have been many insightful explanations for this transition in recent years, but the one presented here is different in two important respects. First, whereas most explanations attempt to reconcile the new trajectory with existing theories of accumulation, ours is based on a new framework altogether. Second, in contrast to most accounts, which are largely polemic, ours is empirical throughout.

I. THE ARGUMENT IN A NUTSHELL

We start with capital. Contemporary students of capitalism, hamstrung by nineteenth-century biases, continue to think of accumulation in the 'material' terms of labor, production and consumption. In our opinion, this emphasis has become insufficient and misleading. Over the past century, capital has grown increasingly politicized in nature and financial in form. 'Free competition' and the formal separation of 'state' and 'capital'—where they existed—have given way to a far more complex interaction of 'dominant capital' groups and 'big government.' Accumulation, which during the nineteenth century was anchored largely in proletarianization and technical advances, has come to depend more and more on corporate amalgamation and inflationary pricing.

To deal with these new dimensions, this paper offers an alternative conceptualization of capital, understood not as a material entity but as a power institution. What gets accumulated, we argue, is neither 'utility' nor 'dead labor,' but financial claims on expected future earnings. These expected earnings, in turn, represent neither the 'marginal productivity' of capital nor 'surplus value,' but the way capitalists view the future structure of power in society.

A power understanding of accumulation leads to different units of analysis. Marx differentiated between three 'types' of capital owned by three corresponding 'fractions' of the capitalist class—'industrial,' 'commercial' and 'financial.' This division is no longer tenable. All modern ownership is financial, and only financial. It is a claim on pecuniary earnings. And pecuniary earnings reflect not production or consumption, but power, and only power. This central role of power means that it is no longer enough to think in terms of capital 'in general' and 'individual capitals' in competition. Instead, the attention should be focused on *dominant capital*—namely, on the largest power coalitions at the centre of the political economy. Different coalitions within dominant capital sometimes are associated with different 'types' of business activity, such as oil, weapons, telecommunication or financial intermediation. But these differences are only partly, and sometimes not at all, related to the nature of 'production' per se. Business is a matter of profit, and profit comes not from production, but

from power—the *power to reshape the trajectory of social reproduction as a whole*. Different segments within dominant capital are differentiated by the nature of their power. Production, narrowly defined, is merely an aspect of that power.

Driven by the quest for power, the goal of these dominant capital groups is not absolute accumulation, but *differential* accumulation. They try not to maximize profit, but to beat the average and exceed the normal rate of return. There is a big difference between these two goals. Profit maximizers focus on their own earnings. By contrast, differential accumulators also benefit, sometimes greatly, by lowering the earnings of others.

This difference is reflected in the 'mechanisms' of accumulation. Traditional analysis of accumulation emphasizes the importance to accumulation of overall growth and price stability. But for dominant capital, differential accumulation works best through mergers and acquisitions and through the redistributional effects of stagflation (stagnation combined with inflation). And, indeed, during the twentieth century, with the progressive spread of dominant capital and differential accumulation, there emerged an almost stylized cycle of differential accumulation 'regimes,' oscillating between relatively long periods of corporate amalgamation and shorter periods of stagflation.

The year 2000 seems to mark the beginning of yet another such oscillation: a long upswing of corporate amalgamation had just ended, and as these lines are being written (early 2003) there are signs that stagflation may be ready for a comeback. It is in this context that the current shift from neoliberalism to the new wars should be understood.

Traditional analyses of imperialism emphasized the benefit for accumulation of territorial conquest, access to raw material and the expansion of markets. But with capital becoming increasingly political in nature and financial in form, the link between imperialism and accumulation has grown more complex and subtle—to the point of making the very concept of 'imperialism' seem questionable. Dominant capital has fabricated a whole new arsenal of accumulation techniques. This arsenal allows it to increase its profits immensely without military conquest. New populations, new workers and new consumers are now brought under its ambit not through war, but through global corporate mergers. And when war does break out, dominant capital often supports it not for the added territory or the pacification of a rival, but for the mere turmoil it creates. As it turns out, turmoil provides the breeding ground for stagflation, and stagflation fuels differential accumulation. Mainstream economists think of inflation as a 'neutral' phenomenon, but the evidence suggests otherwise. Not only does inflation tend to come together with stagnation, but it also works to redistribute income—from workers to capitalists and from small firms to large ones.

The current shift toward war, and in particular the rekindling of conflict in the Middle East, is intimately connected with this new arsenal of accumulation. Of course, the reasons for war are always complicated and never singular, and the present historical junction is no exception. But as far as dominant capital is concerned, the 'battle lines' are relatively clear. For the leading accumulators, success and failure are a matter of differential profit. Their goal is to 'beat the average,' and that makes them judge the world based on relative earnings. In their eyes, the key question is how war will affect their *differential accumulation*, immediately and in the longer run. And that is the question we need to begin with.

Consider first the military contractors and oil companies. The interest of weapon companies in renewed conflict is pretty obvious, particularly after a decade of peace dividends, curtailed war budgets and dwindling arms exports. The interest of the oil companies, however, is more complicated and often misunderstood. Contrary to popular belief, since the 1970s the oil companies, taken as a group, have become relatively impartial to 'access rights' and 'drilling concessions.' As long as they remain the principal off-takers of crude oil, it does not matter much whether or not they own it. The key to their profit is not volume, but price. A higher price of crude oil means higher input costs for them; but it also means a much higher price for refined products, and therefore much higher profits at the bottom line. When crude oil prices go up, so do their profits, and vice versa when the price of oil drops.

And what makes the price of oil go up and down? According to popular conception, the blame rests either with the 'oil sheiks' of OPEC or with the market forces of 'supply and demand.' The reality of the oil business, however, is rather different. As it turns out, over the past thirty years the single most important factor affecting the price of oil was the ebb and flow of conflict in the Middle East.

Tension and war brought higher oil prices, which in turn led to higher oil revenues for OPEC and surging profits for the oil companies. Local governments, flooded with petroleum earnings, used those earnings to buy more weapons, and their purchases helped enrich the arms exporters in the industrialized countries. Furthermore, as the region's arsenals swelled, the groundwork for the next conflict was put in place. Thus, if the oil and armament groups surrounding the current Bush Administration have a broad interest here, clearly it is an interest in some measure of instability and war, not peace.

Of course, the armament and oil companies are not the only ones that need to be considered. Most big companies have little to do with the sale of either weapons or oil, and practically all are users of energy. So are these companies not set to lose from war and higher energy prices? The answer is 'yes and no.' If

oil prices were to continue rising, the Microsofts, General Motors and Vivendis of this world would likely fall behind the ExxonMobils and Lockheed Martins. And indeed, the prospect of such loss of primacy has already contributed to some squabbling between and within Western governments on precisely how much violence should be inflicted on the Middle East. However, considering the stakes involved, the struggle so far has been rather muted. One possible reason is that most large companies believe that the new wars will indeed contribute to world stability and lower oil prices. But there is another possibility, namely, that these companies expect greater instability and higher prices, but view this outcome as desirable—even if it causes them to lose primacy to the oil and armament firms.

The logic behind this preference is as follows. Presently (early 2003), the biggest danger facing dominant capital as a whole is deflation. The global debt burden is heavier than at any previous point in history, roughly twice what it was on the eve of the Great Depression. Corporate pricing power, however, has been declining for more than twenty years and is now the weakest it has been since the late 1950s. Under these circumstances, if disinflation were to give way to *falling* prices, the specter of chain bankruptcies and debt deflation could make the Great Depression look like child's play. Given this risk, any move toward higher inflation—even when accompanied by stagnation—is the lesser evil and would be welcomed with a sigh of relief.

A likely trigger for higher inflation is higher oil prices. That, at least, has been the pattern since the late 1960s. Over the past forty years, higher oil prices have *always* led to higher inflation, and if they do so again dominant capital will likely find the outcome desirable. Furthermore, once the deflation threat is defused, the icing on the cake would be the reinvigoration of differential accumulation. As noted, inflation tends to redistribute income from labor to capital and from small firms to larger ones. And if this pattern continues to hold, the net effect on dominant capital would end up being positive.

Oil producing countries in and outside OPEC obviously are more ambivalent. The explicit shift toward interventionism on the part of the United States and its Western allies must be worrying for them. OPEC is the only international cartel that managed to obtain some degree of 'autonomy' from Western influence, and now this autonomy is in great danger. At the same time, however, part of the cartel's lingering weakness stems precisely from its inability to keep prices high—something which a new era of conflict 'managed' by direct U.S. intervention may help remedy.

Needless to say, these arguments leave many questions open. For example, does dominant capital understand its interests in this way, and therefore quietly support the new wars? Are the oil and armament companies sophisticated

enough to 'engineer' such roundabout accumulation strategies? Do they have the necessary muscle to stir the U.S. government into such adventures? What is the opposition standing against them—from within dominant capital and from the underlying population more broadly? What are the consequences of these developments for the broader 'functioning' of contemporary capitalism? And how should we embed these considerations in the larger context of regional and global politics, cultural change and religious conflict? These are all important questions that deserve a study far more extensive than what can be attempted here. But, then, our purpose is not to write the final word on the issue, but rather to outline an alternative approach and invite others to debate it.

2. CAPITAL ACCUMULATION[2]

What do we mean by the term 'accumulation'? Most people would probably consider this a trivial query: you accumulate when you become richer, you decumulate when you become poorer. And that is certainly part of the answer—but not the whole answer. Suppose your dollar assets grew by 10 percent last year. Suppose further that the overall price level—measured by the GDP price deflator—also grew at the same rate of 10 percent. Since, on average, everything cost 10 percent more, your 'purchasing power' remained the same even though the nominal value of your assets had risen. Clearly, your 'wealth,' measured in terms of what you can acquire, has not changed. In this sense, you have *not* accumulated. For this reason, economists—conservative and radical alike—argue that accumulation should be measured not in nominal dollars and cents, but in '*real terms*.'

Unfortunately, this is easier said than done. Of course, national statisticians produce measurements of the 'real' capital stock as a matter of course, but the *meaning* of these measurements is anything but clear. The statistical procedure itself is simple enough. You take the overall value of capital equipment and structures denominated in dollars and cents—for instance, the dollar value of all factories in the automobile industry—and divide this value by the price index for automobile factories. On the face of it, the effect is to 'purge' from the nominal value of capital the impact of changing prices. For example, if the dollar value of automobile factories in our example rose by 20 percent, and if 5 percent

[2] For detailed expositions of our view on capital, power and differential accumulation covered in Sections 2–4, see Nitzan (1998), Nitzan and Bichler (2000a) and Bichler and Nitzan (2001b: CH. 2).

of the increase was due to a rise in the price of a typical factory, the statistician, after subtracting the latter from the former, could tell us that the 'real' rate of accumulation was 15 percent; in other words, that the 'quantity' of factories, as distinct from their 'nominal' value, expanded by 15 percent. A clean, simple computation, no doubt. But does it really measure the rate of 'accumulation'?

Consider the following facts. An 'automobile factory'—and any other factory for that matter—is made of many different tools, machines and structures. Over time, the 'nature' of these items tends to change. They may take less time and effort to produce; they may become more productive due to technical improvement or less productive because of wear and tear; their composition may change with new machines replacing older ones; they may be used to produce different and even entirely new output; etc. The result of these many changes is that today's automobile factories are *not the same* as yesterday's, or as last year's. The price index of automobile factories, however, is supposed to track, over time, the price of the *very same* factories. The obvious question, then, is how such an index could be computed when the underlying factories—the 'things' whose price the index is supposed to measure—keep changing from one year to the next?

Clearly, in order to measure the price of capital, we must first denominate its underlying 'substance' in some homogenous units. Neoclassical economists have solved the problem by saying that machines, factories and structures could all be reduced to universal units of 'productive capacity,' counted in terms of the utility they generate. In this way, an automobile factory capable of producing 1,000 'utils' is equivalent to two factories each producing 500 'utils.' As factories change over time, we can simply measure their changing 'magnitude' in terms of their greater or lesser 'util-generating capacity.'

In contrast to the neoclassicists, Marx approached the problem from the input side, arguing that capital, like any other commodity, could be quantified in terms of the socially necessary 'abstract labor' required to produce it. So if we begin with an automobile factory that takes, on average, 10 million hours of abstract labor to construct, and add to it another factory that takes, on average, only 5 million hours to build, we end up with an aggregate capital whose 'magnitude' is equivalent to 15 million hours of abstract labor.

Do these 'procedures' solve the problem of separating price from quantity? Not in the least. Indeed, had we known the 'productivity' or 'abstract labor contents' of capital, that knowledge would already tell us what the 'real' magnitude of capital is, making the whole statistical exercise redundant. Will political economists ever come to 'know' these universal units, so that they can dispense with the make-believe process of separating price from quantity? Perhaps. But so far they have not, and until they do—which we think will be never—the

meaning of all statistical measures of 'real' capital will remain unclear.[3]

Ironically, even if we could somehow come up with a 'real' measure of capital, that would not really matter for our purpose. The reason is simple: the real interest of capitalists has nothing to do with the so-called 'real' rate of accumulation. The Ford family, Bill Gates, the Bronfmans, George Soros—and, for that matter, all contemporary capitalists, including the managers of mutual funds and the directors of the large corporations—do not care about the 'purchasing power' of their capital. Similarly, they do not care about the 'productive capacity' of their machines. And they do not care about how much 'abstract labor' went into producing what they own. Of course, they do care very much about the nominal value of their assets. Under the price system of capitalism, says Thorstein Veblen, 'men have come to the conviction that money-values are more real and substantial than any of the material facts in this transitory world' (Veblen 1923: 88). And there is a reason for this conviction.

Present-day capitalists own not 'means of production,' but a financial claim on corporate earnings.[4] This fact is true for all capitalists, whether they own an automobile company, a software firm, a bank, a media conglomerate or a diversified financial portfolio. In this sense, we can no longer differentiate between 'industrial,' 'commercial' and 'financial' capitalists. The emergence in

3. In order to denote the 'substance' of capital in universal units, political economists would need to overcome three obstacles, all of which are insurmountable. First, they would have to explain how we can convert qualitatively different outputs into universal 'utils' (in the neoclassical case), or qualitatively different forms of concrete labor into homogenous units of 'abstract labor' (in the Marxist case). Second, they would have to identify the particular 'utils' produced by a particular type of capital (neoclassical), or the exact number of abstract labor hours that went (on average) into making a particular type of machine (Marxist). And, third, they would have to show that the capital measurements they came up with were indeed unique; in other words, that the 'substance' we call a factory, when measured as 'capital,' has one quantity, and *one quantity only*. On the impossible 'conversion' of quality into quantity, see for example Castoriadis (1984), Nitzan (1989) and Bichler and Nitzan (2001a). The issue of input-output indeterminacy was pointed out by Steadman (1975; 1977). The problem of providing a unique measure of 'real' capital was first identified by Veblen (1904; 1908) and Wicksell (1935), and later gave rise to the 'Cambridge Controversies' of the 1950s and 1960s (Cf. Robinson 1953-54; Sraffa 1960; Harcourt 1969).

4. Note that that the 'objects' owned by the corporation, such as factories and structures, are merely instrumental to profit: they derive their capitalization not from their 'productivity' or their cost of production, but from the earnings they are expected to generate.

the late nineteenth century of the corporations as the principal form of ownership turned all capitalists into financial capitalists. Furthermore, with extensive conglomeration and crossholdings it is no longer possible to apply the categories of 'industry,' 'commerce' and 'finance' even to the corporations themselves. Finally, and crucially, even *within* the corporation we cannot know how much profit comes from 'industry' as opposed to 'commerce' or 'finance.' It is true that many large companies provide data on sales and profits broken by 'business segment' and 'line of activity.' But these breakdowns, based as they are on intra-company transfer pricing, are forever arbitrary. They could be made as large or small as desired and therefore give us no definite insight as to the ultimate 'source' of profit.[5]

In short, there is a decisive 'break' between the material facts of production and the financial reality of accumulation. This break was well understood by Marx already in the middle of the nineteenth century (cf. Marx 1909: vol. 3, Part V). But in order to defend his notion of 'actual capital,' which he believed was made of surplus abstract labor, financial accumulation had to be classified as 'fictitious.' More than a century later, though, the dialectics of capitalist development have completely inverted his classification. These days, the only 'actual' capital is finance. It is readily observable and measurable, it is the only capital capitalists care about, it moves the world. By contrast, capital counted in abstract labor is entirely 'fictitious.' It cannot be observed, it cannot be measured, and it is of no interest to capitalists or their managers. It cannot tell us anything about the actual process of accumulation.

And, so, although 'production' in its narrow sense matters a great deal for capitalism, it does not—and indeed cannot—provide either the *quantitative* code for accumulation or the *benchmark* against which accumulation should be assessed. Accumulation is a matter of power, and, accordingly, the yardstick capitalists use to assess their success or failure cannot be absolute. It has to be *relative*. Capitalists compare their accumulation not to articles of utility or hours of labor, but to the 'normal' rate of accumulation itself.

3. Differential Accumulation

A capitalist investing in Canadian 10-year bonds typically tries to beat the *Scotia McLeod* 10-year benchmark; an owner of emerging market equities tries

5. These problems are well known to national accounting statisticians. The U.S. Department of Commerce, for instance, warns users that its profit data are based on *company* reports, and that their classification by *industry* is 'inaccurate' to an unknown extent (U.S. Department of Commerce. Bureau of Economic Analysis 1985).

to beat the *IFC* benchmark; investors in global commodities try to beat the *Economist* index; owners of large U.S. corporations try to beat the *S&P 500*; and so on. Every investment is normally stacked against some benchmark. To seek 'absolute' returns in our day and age is to be exotic indeed.[6] Neoclassical economists never tire of talking about 'profit maximization,' although real investors would not know what that meant even if they cared.[7] Their own goal is *differential accumulation*.

On the face of it, this emphasis on differential financial gain may seem overblown. Present day capitalists certainly think in nominal terms; and, yes, they do try to beat the average. But in so doing, are they not simply chasing their own tail? And why should studying this game be important for political economy? After all, everyone knows that financial markets are a 'bubble' of hype and deflation whose booms and busts are pretty much 'delinked' from the 'real' processes of production and profit. Looking at how investors behave may be interesting, even entertaining, but how much can it tell us about the *underlying* social reality?

The short answer is: plenty. Finance and differential accumulation are not a sideshow. Finance is the main 'language' of capital, while differential accumulation is its principal 'generative order.' Together, they produce many of the 'explicate' phenomena of contemporary capitalism and offer a key to understanding some of its most fundamental processes.[8]

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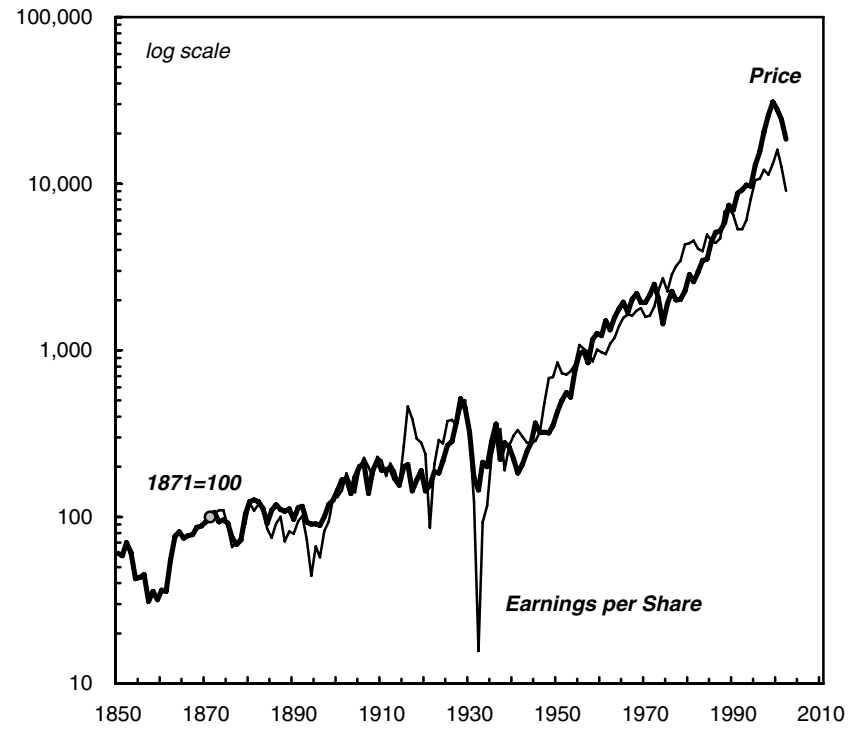
6. Peter Martin, a *Financial Times* columnist, clearly is sailing against the wind when he calls on fund managers to abandon their 'fetish' for relative performance in favor of absolute returns (Martin 1999). Some hedge funds have tried to do just that—i.e., achieve a pre-determined rate of return—but as another *Financial Times* commentator explains, their strategy is tantamount to having their cake and eating it too. In the end, 'absolute return strategies' are attractive only insofar as they manage to beat the average.... (Anonymous 2002).

7. The idea of profit maximization was first challenged during the Great Depression by the empirical works of Means (1935) and Hall and Hitch (1939). Initially, their studies stirred up considerable controversy and debate, but with the post-war victory of the 'neoclassical synthesis' of Keynesian macroeconomics and neoclassical microeconomics, the issue was ceremoniously swept under the carpet (see Lee 1984; Lee et al. 1990–91).

8. On the notions of explicate and generative orders, see Bohm and Peat (2000) and Bohm (2002).

Figure 1 – S&P 500: Price and Earnings*



* The S&P 500 index splices the following three series: the Cowles/Standard and Poor's Composite (1871–1925); the 90-stock Composite (1926–1957); and the S&P 500 (1957-present). Earnings per share are computed as the ratio of price to price/earnings.

Source: Global Financial Data (series codes: _SPXD for price; SPPECOMW for price/earnings).

Finance and 'Reality'

Take the popular 'delinking thesis.' According to this theory, equity prices have no basis in 'reality.' In buying and selling stocks, investors are simply trying to guess what other investors think, in infinite regress, a process which inevitably makes them lose sight of anything related to the 'real' economy. As John Maynard Keynes put it, 'We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees' (Keynes 1936: 156). This view has become popular, and it certainly rings true if you spend too much time observing 'day trading' and the stock market floor. But as an explanation of the market's long term trajectory it is dangerously misleading.

Consider Figure 1. The chart shows the long-term development of the Standard and Poor's 500 index (*S&P 500*), which measures the average stock price of the 500 largest companies listed in the United States. The Figure also plots the average earnings per share of these companies. Evidently, the two series have not moved together exactly, showing marked discrepancies in their year-to-year fluctuations (note the log scale). But over the longer term their correlation—measuring 0.95 out of a maximum value of 1—is nothing short of remarkable. In other words, the stock market may be based on subjective speculation (which it certainly is), but it is *a speculation tightly correlated with the capitalist reality of profit*.

Should this long-term correlation surprise us? Not really. When a capitalist buys a share in a company, she buys a portion of that company. But what she pays for are not the machines, structures, or workers of the company. Rather, she pays for the *company's ability to generate profit*. And how much she pays for this ability is proportionate to how much profit the firm is expected to generate.[9] This relationship can be symbolically stated, so that:

$$\textit{rate of accumulation} \approx \textit{rate of growth of future profit}$$

We can further simplify this expression by noting that, over the longer haul, profit expectations tend to oscillate around the path of actual profit, so that:

$$\textit{rate of accumulation} \approx \textit{rate of growth of profit}$$

In other words, what we see in Figure 1 is not a fluke correlation between the so-called 'speculative' fervor of finance and the 'reality' of profit, but *a relationship deeply grounded in the inner logic of accumulation*. Over the longer haul, the 'delinking thesis' is wrong, not only empirically but also theoretically.

Differential Accumulation: Passive and Active

Now, let us think of what it takes to achieve differential accumulation; that is, to have the capitalist's own capital, measured in dollars, expand faster than the average. Suppose, for the sake of illustration, that the capitalist invests in equities, and suppose further that he systematically beats the *S&P 500* benchmark. To enjoy such a feat, the profits of the companies he owns must grow

9. We are abstracting here from the other dimension of stock pricing—namely, risk perceptions, the rate of interest and investors' hype (the later denoting the ex-post ratio of expected to actual profit). These factors are largely cyclical and therefore important mostly in the short and medium term. In the longer run, they are necessarily secondary to the exponential growth of profit.

faster than the average profit of the 500 firms included in the *S&P 500* index.[10] And as his own profits rise faster than the average, his relative share of total profit grows as well. In other words, to *accumulate differentially* and to *increase your distributive share of profit* are two side of the same process.

There are two basic ways to beat the average: the 'passive' and the 'active.' The passive method, typical of minority owners, is to buy those assets whose profits you expect to grow faster than the average—but whose prices are presently 'undervalued' relative to this 'eventual' outcome—and wait. In due course, or so you hope, other investors will come around to think as you do, bid up the price of your stocks relative to the average, and in the process cause you to accumulate differentially. Two glaring examples of this strategy are George Soros' Quantum Fund and Warren Buffett's Berkshire Hathaway. Between 1969 and 1997, Soros recorded annual total returns averaging 33 percent, compared with 13 percent for the *S&P 500*, while Buffett, nicknamed the 'Sage of Omaha,' scored an annual average of 22 percent over the 1965–2002 period, compared with 10 percent for the *S&P 500*.[11]

And yet, as they grow bigger, successful 'passive' investors increasingly find themselves compelled to pursue more 'active' methods. In the 1960s, Soros and Buffett were small enough to buy and sell without significantly affecting the price of their underlying assets. That was no longer true in the 1990s. Systematic differential accumulation had made them too big for a strictly passive strategy. As a capitalist, it is no longer easy to 'buy cheap' when your large purchases quickly drive up the price, or to 'sell dear' when unloading assets *en masse* quickly depresses their price. At that point, you are more or less forced to become active, which is what gradually happened to Soros, Buffett and scores of other large fund mangers and institutional investors.

The active method, typical of majority, or 'effective' owners, contains the added ingredient of *direct* intervention. Instead of merely waiting in the hope that profits will grow differentially, you take deliberate action in order to make sure they do grow differentially. Individually, dominant capital groups engage in both methods. But it is the latter method—namely, the active attempt to affect profit—that makes systematic differential accumulation possible in the

10. Again, we are abstracting from shorter term variations in differential risk and hype alluded to in footnote 9.

11. Total return comprises capital appreciation and reinvested dividends. Figures computed from Reier (2000), Buffett (2003: 2) and Global Financial Data. http://www.globalfindata.com

first place. Without someone being 'active,' there could be no systematic growth in differential profit; and without such growth the passive method becomes untenable.

Capital and Power

The emphasis here on active 'human agency' is crucial, and all the more so since existing theories of accumulation tend to ignore it. For the neoclassicists, capitalists can try to increase their profit until they are blue in the face. It will not help them. In a competitive market, profit is equal to the productive contribution of capital, not to the effort of its owner. Karl Marx ridiculed the notion that capital could be 'productive.' Only labor was productive. The source of profit was the institution of private ownership, which left the means of production in the hands of capitalists and forced workers to settle for wages lower than the value of their output. In this scheme, Marx recognized the power foundations of capital—the power of capital over labor. Paradoxically, however, beyond this abstract recognition, his analysis of accumulation left little room for *concrete* power.

Of course, Marx was the first to note the growth of big business and the formative role of the state in the genesis of capitalism, themes that were later developed by neo-Marxist state theorists and the analysts of monopoly capitalism. But to emphasize these aspects of power was to undermine the labor theory of value. This latter theory relied heavily on the Newtonian assumptions of atomistic competition, the free mobility of capital and labor, and the lack of 'intervening' factors such as governments—all of which assumptions were compromised by the ascent of giant corporations and big government. The result was an increasingly sophisticated explanation of capitalist power built on an increasingly shaky theory of capital accumulation.

Monopoly Capital theorists took a step forward, by emphasizing the role of centralized power in mature capitalism and by recognizing that such power made labor values more or less irrelevant for the actual trajectory of *prices and profits*. But they failed to take the next logical step, namely to rethink the implication of power for the *concept of capital itself*. This failure was candidly acknowledged by Paul Sweezy in his assessment of *Monopoly Capital*, a book which he wrote together with Paul Baran twenty-five years earlier:

> Why did Monopoly Capital fail to anticipate the changes in the structure and functioning of the system that have taken place in the last twenty-five years? Basically, I think the answer is that *its conceptualization of the capital accumulation process is one-sided and incomplete*. In the established tradition of both mainstream and Marxian economics, we treated capital accumulation as being essentially a matter of adding to the stock of existing capital goods. But in reality this is only one aspect of the process. Accumulation is also a matter of adding to the stock of financial assets. The two aspects are of course interrelated, but the nature of this interrelation is problematic to say the least. The traditional way of handling the problem has been in effect to assume it away: for example, buying stocks and bonds (two of the simpler forms of financial assets) is assumed to be merely an indirect way of buying real capital goods. This is hardly ever true, and it can be totally misleading. This is not the place to try to point the way to a more satisfactory conceptualization of the capital accumulation process. It is at best an extremely complicated and difficult problem, and I am frank to say that I have no clues to its solution. But I can say with some confidence that *achieving a better understanding of the monopoly capitalist society of today will be possible only on the basis of a more adequate theory of capital accumulation*, with special emphasis on the interaction of its real and financial aspects, than we now possess. (Sweezy 1991, emphasis added)

4. Capital *as* Power

In our view, the alternative is to think not of accumulation *and* power, but of accumulation *as* power.[12] The Marxist belief, according to which surplus value is first 'produced' by industrial capitalists and then 'redistributed' through intra-class power struggle among the different fractions of the capitalist class, is a grand myth which has run its course. Instead, we argue that *all* capitalized earnings, regardless of their 'source,' are reflections/expressions of power—the power of capitalists to shape and transform the course of society to their own ends. What is being 'capitalized,' always, is not abstract labor, but *power itself*. And since power, by its very nature, is differential, so is accumulation. This is the crux of the matter.

Capitalizing Power

Consider the example of Microsoft. In 2000, the company earned $9.4 billion in net profit—roughly 70 percent of all global software profit—and boasted a market capitalization of some $310 billion (Anonymous 1999b; Moody's Online). This profit and capitalization, though, bore little relation to the 'productivity' of the company's workers or to the cost of producing software.

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12. Our 'equating' of capital to power is metaphorical, of course. But as Arhtur Koestler (1959; 1964) amply demonstrates, metaphors, or 'bisociations,' as he calls them, are essential for creativity, including in science. 'Metaphoric perception,' say David Bohm and David Peat, 'is, indeed, fundamental to all science and involves bringing together previously incompatible ideas in radically new ways' (2000: 35).

Instead, they were *entirely* dependent on intellectual property rights, on the state sanction that backed up these rights, and on Microsoft's ability to harness this sanction to its own differential ends. For this reason, it does not matter whether Microsoft spent billions of dollars to 'invent' its programs, or instead appropriated them *gratis* from others. Either way, the programs take only a few dollars' worth of CDs to 'reproduce,' to the byte. The only barrier preventing this latter act is the law. Remove the threat of penalty for such 'procreation,' and Microsoft's profit and capitalization would quickly collapse to zero. Microsoft may be a 'knowledge company,' whatever that means, but its differential profitability depends squarely and solely on the *politics* of knowledge.[13]

Or take Citigroup. The relative profit growth of this financial conglomerate, like that of similar companies, depends, among other things, on interest rates. And interest rates, as we know, are affected by monetary policy. This 'symbiosis' between private profit and state action makes Citigroup's differential accumulation depend on its ability to affect monetary policy; and to the extent that it does, part of Citigroup's assets represents a 'capitalization of the state.'

Or think of General Motors. GM, together with seven other automobile companies, controls the world market for cars and trucks. The differential profit of GM depends on its tacit and open collusion with these other companies. But it also depends on much more. It depends on the highway system provided by the government, as well as the convenient lack of alternative public transportation; it depends on environmental regulation or lack thereof; it depends on the ups and downs in the price of oil; it depends on tax arrangements with various governments and on a complicated global system of 'transfer pricing'; it depends on a sophisticated propaganda war which creates wants and shapes desires; it depends on the relative strength of its labor unions; and so on and on. GM's differential profit also depends on its huge credit operations, and therefore on monetary policy; and it depends on the company's military business, and therefore on the global politics of armament and the 'threat' of conflict. In this context, the 'production' of automobiles as such is not the 'source' of accumulation, but rather one dimension of a complex order through which GM develops and expands its relative social power.

13. Not surprisingly, Microsoft earns most of its profits from sales in developed countries such as the United States, where software piracy could cost you up to five years in jail. Most developing countries have not yet perfected the penal system for such acts, and until they 'develop' in that direction, their contribution to Microsoft's bottom line is likely to remain negligible.

Another illustration: advertising firms. Companies such as the Interpublic Group, Omnicom and Publicis bypass the sublimations of liberal ideology altogether. They do not sell a product; they sell power—the power to shape the minds of human beings. The more effective their brainwashing, the greater their relative profit and differential capitalization. Their capitalization, quite literally, is the capitalization of differential power.

A final example—the oil companies. As we shall see later, over the past thirty years the differential profits of these companies have had little to do with the production of oil—and almost everything to do with its price. And the price of oil in turn has had little to do with 'supply and demand' and everything to do with the global political economy in general and the political economy of the Middle East in particular. So here, too, profit is a matter of politics, which means that assets capitalize power.

What these examples serve to illustrate is simple. The so-called 'process of production,' narrowly understood, constitutes one of several explicate 'media' through which profit is generated. But that medium alone still tells us very little about profitability and accumulation as such. In order to decipher these latter processes, we have to go beyond the narrow understanding of 'production' and unpack the *general and concrete nature of capitalist power and its oppositions*.

Our own starting point is to recognize that contemporary capitalism is obsessed with the differential accumulation of financial values. Individual capitalists can accumulate differentially simply by gambling on 'undervalued' assets whose underlying profit they expect will grow differentially. But somebody has to make these profits grow differentially in the first place, and that requires power. Power, in other words, lies at the very heart of accumulation. To understand accumulation is to understand power under capitalism, and vice versa.

Politics, Ruling Class and Accumulation Through Crisis

The double-sided nature of power and accumulation is important for many reasons, of which we should highlight three. First and foremost it forces us to think of accumulation itself as a political process. From this viewpoint, the 'political' dimension is not some sort of a superstructure built on top of 'material' accumulation, a mechanism for the redistribution of values previously created in the productive sphere. Instead, *politics, broadly understood, is the very crux of accumulation*. Making politics the focus of our attention enables us to defuse the anonymity of 'capitalist forces,' demystify 'competition,' and go beyond the vagueness of 'the state,' 'the capitalist class' and 'the capitalist system as a whole.'

More specifically within this context, the second reason for the focus on power is that it helps us to think of capital accumulation and ruling class

dynamics as *two sides of the same process*. Differential accumulation implies the existence of a 'dominant capital' group which accumulates faster than the average. And the fact that this group generally succeeds in achieving differential accumulation in turn implies its intimate involvement in central power processes—including government, the law, ideology, mass persuasion, international organizations, etc. In this sense, dominant capital, by its very nature, must become increasingly fused—although never entirely synonymous—with the ruling class in contemporary capitalism. The 'extent' to which dominant capital is able to shape the social process is imprinted on the annals of the stock and bond markets in the form of relative financial performance. This differential performance is not an 'objective' measure of power. Rather, it is a measure of how the ruling capitalist class conceives of and universalizes such power in its own mind, how it assesses its own success and failure, and how it tries to impose this understanding on the rest of society. These features make differential accumulation a highly 'symbolic' process. But it is a very real symbol, with very real causes and very real consequences.

From this viewpoint, to understand present day capitalism is to articulate the 'link' between the *qualitative* quest to shape capitalism on the one hand and the *quantitative* trajectory of differential accumulation on the other. This bridge, of course, is forever speculative. But we can certainly use it to tell a compelling story, based on a consistent framework, supported by evidence, and subject to some standards of refutation.

The third reason for emphasizing the duality of accumulation and power concerns the issue of crisis. Radical theories deal extensively with accumulation crises. But with differential accumulation there emerges the mischievous possibility of accumulation *through* crisis. If capital is taken to denote an amassment of material things or dead labor, it is only natural to equate its accumulation with 'economic growth.' But if what gets accumulated is power measured through differential ownership titles, it is clear that the process can take place with production decreasing as well as increasing, and with price inflation as well as price stability. The language of power and domination is not the same as the language of production and livelihood. And sometimes—indeed often—power can be greatly augmented precisely by undermining production.

5. Regimes of Differential Accumulation[14]

How can dominant capital achieve differential accumulation? Analytically, there are two methods of doing so, which we call *breadth* and *depth*. To illustrate the meaning of these concepts, think of the dollar level of corporate profit as a product of two components: (i) the size of the corporate organization, measured by the number of employees; and (ii) profit per employee, measured in dollars, so that:

Table 1 – Regimes of Differential Accumulation

	External	Internal
Breadth	Green-field	Mergers & Acquisitions
Depth	Stagflation	Cost-cutting

$$profit = (employment) \cdot (profit / employment)$$

Labeling the first brackets 'breadth' and the second 'depth,' we have:

$$profit = breadth \cdot depth$$

Now, think about this equation in relative, or differential, terms. As a dominant capitalist you increase breadth in absolute terms by increasing your employment; you increase breadth in relative terms by increasing your differential employment—that is, by increasing your own employment *faster than the average*. For example, if average employment growth is 5 percent, and dominant capital expands its labor force by 7 percent, we say that differential breadth is 2 percent (the difference between the two).

Following the same logic, to increase depth is to raise your profit per employee; to increase your differential depth is to raise your profit per employee *faster than the average*. If the average profit per employee grows by 10 percent and dominant capital achieves 14 percent, differential depth is 4 percent.

Each of these methods—breadth and depth—can be further subdivided into *external* and *internal* avenues, leading to a four-way classification illustrated in Table 1.

External breadth takes place when you hire new workers and create new, green-field capacity faster than the average. *Internal breadth* occurs when you take over existing capacity and workers through mergers and acquisitions; that is, by buying other companies. Individually, large firms engage in both methods; but as a group, their differential breadth is determined almost entirely by the latter. 'One capitalist always kills many,' observed Karl Marx in the nineteenth century (1909: vol. 1, p. 836). And, indeed, the twentieth-century growth of big

14. For a fuller theoretical and empirical discussion of differential accumulation regimes, see Nitzan (2001) and Nitzan and Bichler (2002: ch. 2).

business was achieved mostly by amalgamation, with large firms buying existing capacity rather than building it (see for instance, Scherer and Ross 1990: CHS. 3 and 5).

Internal depth refers to the ability of large firms to increase profit per employee by cutting cost faster than the average. *External depth* denotes the capacity of large firms to do the same by increasing prices faster than the average. Again, individually, dominant capital firms try to do both, sometimes simultaneously. But over the longer haul it is mostly the latter method that matters for differential depth. Cost cutting, of course, is pursued relentlessly by both large and small firms. However, since it is difficult to exclude others from using new production techniques and from taking advantage of cheaper input prices, the net impact of cost cutting is mostly to meet the average rather than beat it. Historically, the main gains in differential depth have come from dominant capital raising its prices faster than the average, a process which at the aggregate level appears as stagflation.

Now, to most readers, these claims would seem counterintuitive, if not preposterous. In the popular conception, growth often is used as a synonym for accumulation, and inflation is considered poisonous for profit. Capitalism, goes the conventional wisdom, abhors stagnation and loves price stability.

Unfortunately, these conventions do not sit well with the facts. The mismatch is largely the result of a theoretical fixation on 'material' accumulation measured in absolute terms. If instead we think of accumulation as a differential power process, mergers and acquisitions suddenly become as important as growth, if not more so, and stagflation turns from foe to friend. Indeed, as we shall see below, these two accumulation paths—amalgamation and stagflation—have become so paramount that they now appear as broad social 'regimes,' each with its own unique characteristics. But then we are running ahead of our story.

6. MERGERS AND ACQUISITIONS

So far, we have argued that differential accumulation by dominant capital—namely, the ability of dominant capital to have its profit and capitalization grow faster than the average—is sustained mainly though merger and through stagflation. Let us now look more closely at the historical evolution of each path—beginning with merger in this section and stagflation in the next. Figure 2 shows the long-term progression of corporate amalgamation in the United States. The bottom series provides an 'amalgamation index,' or a 'buy-to-build' ratio. It measures the ratio between the dollar amount put into mergers and acquisitions and the dollar amount put into green-field investment. According to the data, in 1895, for every $100 of green-field investment in plant

and equipment there were roughly 60 cents' worth of mergers and acquisitions. Over the next century, however, this ratio has grown by a multiple of 350 (!), so that by 1999, for every $100 of green-field investment there were $215 spent on corporate amalgamation (note the log scale).

The reason for the exponential increase in this ratio is hardly mysterious. Over time, the pace of green-field investment is limited by the overall growth of the market. To expand productive capacity faster than the market is to create 'glut' and ensure business ruin. Not so for mergers and acquisitions. Since mergers and acquisitions merely 'fuse' existing corporations, they can expand many times faster than the market without ever 'spoiling' it. And indeed, this is one of the main incentives for buying rather than building. By taking over other firms, capitalists augment their profit stream and reduce potential competition without the risk of 'overcapacity' and falling profit margins.[15]

The merger process tends to be self-limiting, however. If dominant capital buys faster than it builds, sooner or later it is bound to 'run out' of takeover targets. At that point, the only way for dominant capital to keep merging is to 'break the envelope' and go beyond its existing corporate universe. Figure 2 shows this imperative unfolding in the United States. The first, 'monopoly' merger wave, straddling the end of the nineteenth and the beginning of the twentieth centuries, saw the emergence of big business in the United States and the formation of large monopolies in the leading industries. In the second, 'oligopoly' wave, which lasted through much of the 1920s, firms broke their original industry envelope to create vertically integrated firms in the various business sectors (for instance, oil refineries expanding upstream to exploration and drilling and downstream to transportation and marketing). The third, 'conglomerate' wave, building up during the late 1950s and 1960s, saw big firms diversifying their activity (for example, branching from automobiles to finance, to weapons, to computers). And the fourth, 'global' wave, which occurred during the 1980s

15. Standard analysis often is perplexed by the seemingly 'illogical' drive to merge—a drive which appears to persist even when takeover targets are 'too expensive' relative to green-field investment, and to continue despite 'disappointing' post-merger performance (see for example, Brealey et al. 1992: CH. 36). The problem with this type of analysis is that it focuses on the individual firm, failing to appreciate the macro consequences of *all* firms choosing to build rather than buy. If instead of merger, the funds were ploughed back into building new factories, glut and losses would make green-field—not takeover—look like an expensive mistake (the first to understand this 'dilemma' was Veblen 1923; for a critical analysis, see Nitzan and Bichler 2002: CH. 2).

and 1990s, set in motion the process of creating truly global companies (a shift from U.S.-based multinational firms to transnational organizations).

This successive breaking of 'envelopes' was not continuous, however. It unfolded in waves, and there was a reason for that as well. Merger booms tend to 'hype-up' investors and make market conditions increasingly fragile as the boom progresses. Eventually, negative sentiment sets in, making the market inhospitable for merger till the next reversal in mood (Nitzan 1995b, 1996). Furthermore, breaking each 'envelope' involves major legal, institutional and political realignments, and that takes time. The consequence is that the whole process is susceptible to major interruptions. And since merger is a form of differential accumulation, periodic ruptures in the process mean periodic reductions or even reversals in differential accumulation. It is here that stagflation enters the picture.

7. STAGFLATION[16]

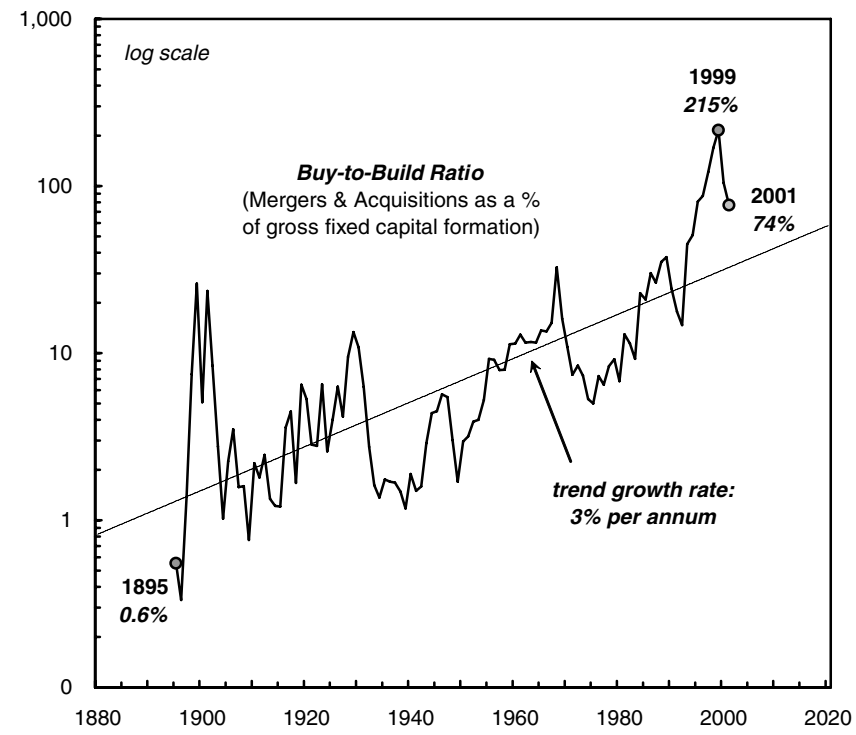
'Neutrality'

To begin with, there seems to be a general neglect, including among radical political economists, of the historical significance of inflation for capitalist development. On the face of it, this neglect is rather surprising. Inflation—commonly defined as a general rise in the price of commodities—is hardly new. According to David Hacket Fisher (1996), since the thirteenth century there have been no less than four major inflationary waves, or 'price revolutions' as he calls them. Figure 3 illustrates the pattern of these waves in the U.K., a country whose price indices go back the farthest. The first wave occurred during the thirteenth century; the second during the sixteenth century; the third in the latter part of the eighteen century; and the most recent one in the twentieth century. Furthermore, each of these price revolutions, Fisher claims, was accompanied, particularly toward the latter part of the wave, by a deepening socio-economic crisis. In other words, the phenomenon of *stagflation*—that is, of stagnation together with inflation—is not new either. The term 'stagflation' was coined by Paul Samuelson only in the mid-1970s, but the reality of stagflation goes back many hundreds of years.

Despite its long history and intimate connection to stagnation, political economists continue to view inflation as 'neutral.' Following David Hume's

[16] For a fuller theoretical and empirical analysis of inflation and stagflation, see Nitzan (1992; 2001), Bichler and Nitzan (2001b: CH. 5) and Nitzan and Bichler (2000b; 2002: CH. 4).

Figure 2 – Corporate Amalgamation in the United States



Source: Jonathan Nitzan and Shimshon Bichler, *The Global Political Economy of Israel* (London: Pluto Press, 2002), Data Appendix, pp. 82–3. Updated to 2001.

'classical dichotomy,' they insist on distinguishing between the 'real' and 'nominal' spheres of economic life. Of these two realms, the 'real' sphere of production, consumption and distribution is considered primary, whereas the 'nominal' sphere of money and absolute prices is thought of mostly as a lubricant, a mechanism that merely facilitates the movement of the 'real economy.'[17]

[17] This view is pervasive. 'There cannot, in short, be intrinsically a more insignificant thing, in the economy of society, than money,' tells us John Stuart Mill (1848: Book 3, CH. 7). Money is simply a 'veil,' says Irvin Fisher, as does Nobel Laureate Franco Modigliani: 'Money is "neutral", a "veil" with no consequences for real economic magnitudes' (Papademos and Modigliani 1990: 405). And, since, according to Milton Friedman (1970), 'inflation is always and everywhere a monetary phenomenon,' rising prices, although a nuisance, are ultimately neutral in the grander scheme of things.

Now, to be fair to the classical political economists, the backdrop against which they were writing was largely one of price stability and even deflation, not inflation. As shown in Figure 3, U.K. consumer prices had hardly changed between 1600 and 1750. In the second half of the eighteenth century, they rose relatively quickly, but then fell again throughout the nineteenth century. In that context—which by no means was unique to Great Britain—it was only natural to concentrate on production and the coercive discipline imposed by 'market forces,' and to spend less time thinking about the role of inflation.

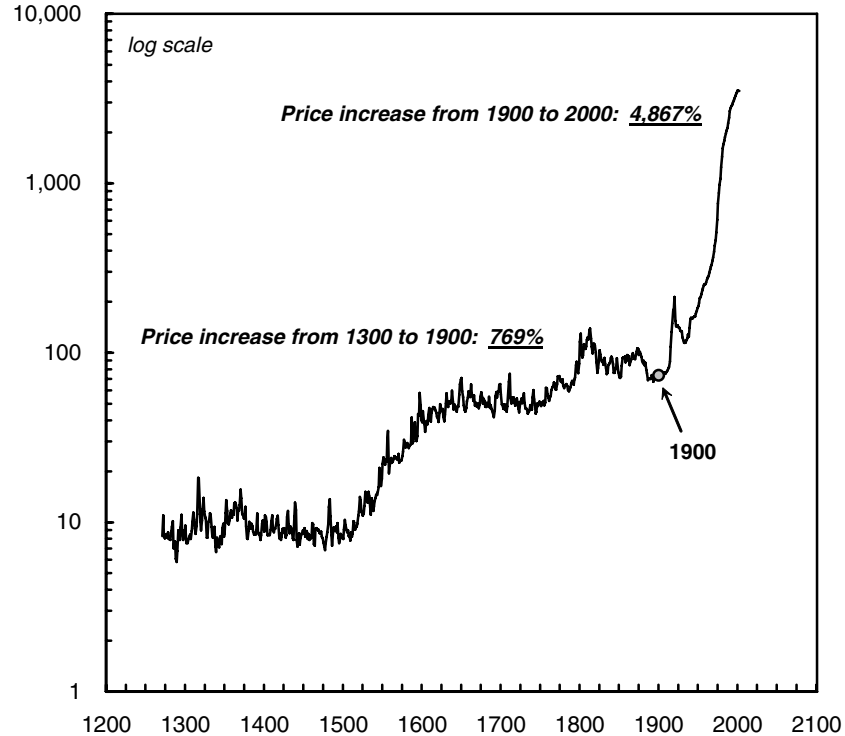
However, the historical backdrop changed dramatically during the twentieth century. First, inflation has risen to unprecedented levels. As Figure 3 shows, U.K. prices rose by almost 5,000 percent between 1900 and 2000, compared with less than 800 percent in the previous six centuries combined. Second, there was a clear change in pattern. During pervious inflationary waves, prices oscillated around their uptrend, but in the twentieth century—with the notable exception of the 1930s—they always moved upwards.[18] The classical political economists, writing in a different era, perhaps could be forgiven for not paying too much attention to inflation. But having lived through the experience of the twentieth century, contemporary observers cannot ask for similar leniency.

So why do most economists continue to believe that inflation is 'neutral'? The reason begins with the way they define it. There are two common definitions of inflation: (1) a continuous increase in the *average* price level; and (2) an ongoing increase in 'liquidity'; that is, an increase in the *total* amount of money relative to the *total* volume of commodities. These two definitions often are seen as equivalent: if we derive the average price level P as the ratio between the total amount of money M and the overall quantity of commodity Q (ignoring the velocity of circulation), it is obvious that in order for P to rise (or fall), the ratio M/Q has to rise (or fall) at the same rate, and vice versa.

The crucial thing to note here is the *aggregate* nature of the definition: it focuses wholly on averages and totals. This fact is important, since to define inflation in this way is to miss the point altogether. Inflation certainly involves a rise in the average price of commodities; but that is like saying that the 'average' outcome of a game between two basketball teams is always a draw: one team's win is another's loss. Although mathematically correct, the statement

[18] The story of the 1930s actually is more complicated than it seems. As Gardiner Means (1935) showed in his study of the U.S. experience, most of the price drop happened in competitive industries (where employment and output dropped only moderately), while in the highly concentrated industries prices hardly moved at all (but employment and output fell dramatically).

Figure 3 – Consumer Prices in the U.K.



Source: Global Financial Data (series code: CPGBRM); WEFA.

is irrelevant to the reality of basketball games. If these games always ended up in a draw, players would soon be looking for another game—one which they could actually win. Similarly with inflation. If all prices rose at the same average rate, inflation definitely would be 'neutral' as mainstream economists say. But it would also serve no purpose whatsoever, and would most likely cease to exist.

Redistribution

The crux of inflation is not that prices rise in *general*, but that they rise *differentially*. Inflation is never a uniform process. Although most prices tend to rise during inflation, they *never all rise at the same rate*. There is always a spread, with some prices rising faster than the average and others more slowly. And since prices change at different rates, we can paraphrase Milton Friedman's famous maxim and state, categorically, that 'inflation is always and everywhere a *redistributional* phenomenon.'

The difference in definitions here is crucial. For those who believe that inflation is an aggregate 'nominal' process of 'too-much-money-chasing-too-few-commodities,' indeed there is little reason to look any further into the so-called 'real' world of production and distribution. The only relevant questions are, first, how much money is created and, second, how increased liquidity is 'transmitted' to higher prices. But if inflation is merely the aggregate appearance of an underlying distributional struggle, the way to understand it is to begin from that very struggle. In this case, the important questions are: who gains, who loses, and how?[19]

Inflation redistributes income in many different ways, of which we would like to highlight two.[20] The first is redistribution between workers and capital-

[19.] Note that mainstream economists would readily admit that in reality prices do not all change at the same rate, and that relative price variations may even be positively correlated with the rate of inflation (see for instance, Parks 1978). But these relative variations, they would add, have little to do with the cause of inflation, nor do they bear on its long term consequences. First, in a competitive market relative price variations reflect changes in consumer preferences (marginal utility) and technology (marginal productivity), and in that sense have little to do with overall inflation. Second, 'disequilibrium' prices—namely, those which do not reflect the underlying logic of utility and productivity—may exist, but only temporarily. Soon enough, the market would force them back to their 'proper' equilibrium levels. And finally, during inflation deviations from equilibrium prices arise mostly from misguided expectations and therefore are never systematic in their pattern. These deviations could make some 'agents' richer and other poorer, but only by fluke. Disequilibrium prices could also arise from 'government intervention' and 'monopoly practices' (mainly by labor unions), but the redistributional effect is nullified once agents become aware of these 'imperfections' and 'discount' them into their demand and supply. Moreover, regardless of their redistributional impact, these 'imperfection' cannot translate into inflation unless validated by increases in overall liquidity.

Unfortunately, this line of defense is persuasive only to those who erect it. First, marginal utility and productivity are never observable, so how could we know what is the equilibrium price which equates them? Second, equilibrium prices, as their name suggests, hold only in equilibrium. But since we never know whether we are in equilibrium or disequilibrium, how can we know which prices are 'out of line'? And finally, why should we *assume* that inflation does not systematically redistribute income? To say that market forces prevent such systematic redistribution from happening could be an explanation for an observed outcome. But should we not first establish that this, indeed, is the outcome?

[20.] Inflation is related to the distribution of *assets* through its impact on relative hype and relative risk, as well as through relative profit—a complicated process that has received inadequate attention and whose study is part of our current research project.

ists. Figure 4 plots the pattern of this redistribution and the rate of inflation in the United States over the past half-century. The rate of inflation is measured by the annual percent change in the wholesale price index. Income distribution is presented here as the ratio of *S&P 500* earnings per share and the average hourly wage in the private sector. The specific focus on earnings per share and the wage rate is intended to emphasize the income of *individual* owners—the owner of capital and the owner of labor power, respectively (both series are smoothed as 3-year moving averages).

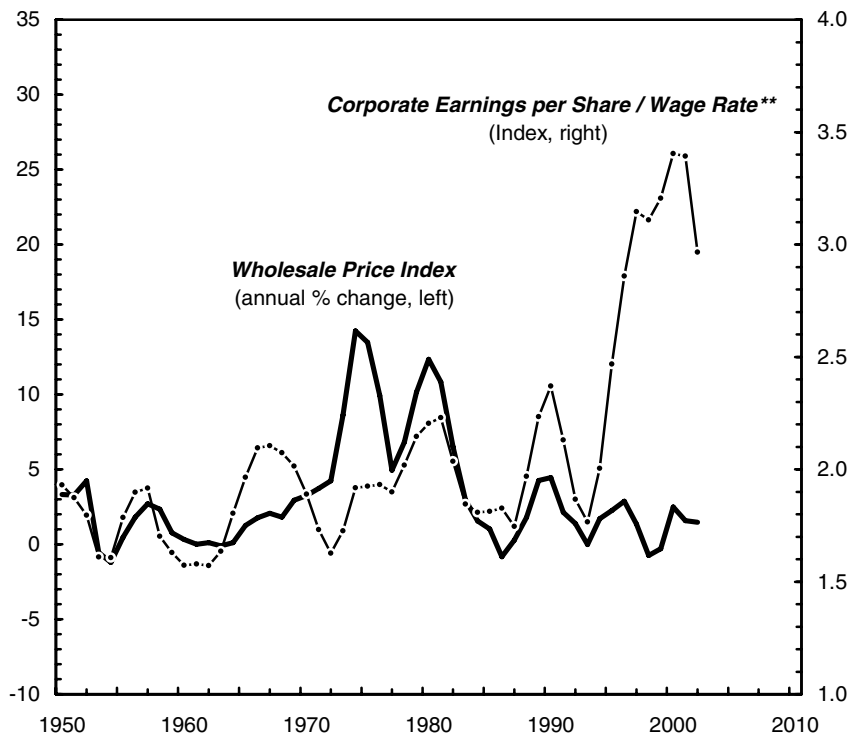
Now, if mainstream economics is right and inflation indeed is 'neutral,' the rate of inflation should have no systematic correlation with the distribution of income between workers and capitalists. But the facts show otherwise. As Figure 4 illustrates, there is a fairly tight positive correlation between the two processes. The correlation is not perfect, of course, but that is to be expected given the many factors involved.[21] For our purposes, the crucial point is the fact that such a systematic correlation exists in the first place. Simply put, this correlation tells us that during rising inflation, corporate profit has tended to rise relative to wages, and vice versa when inflation has dropped.

The second redistribution is between large and small firms. Figure 5 plots the ratio between the profit markup of the Fortune 500 and the profit markup of the U.S. business sector as a whole. The profit markup is defined here as the percent of net profit in sales. The ratio between the two markups, reminiscent of Kalecki's (1943) 'degree of monopoly,' indicates the relative 'profit power' of large firms. In this sense, it provides a proxy for differential depth.[22] As expected, the Fortune 500 enjoy stronger pricing power (over the past half-century, the ratio between the markups averaged 1.6). But the crucial points for us here are that this relative pricing power has tended to fluctuate and that *the fluctuations have been positively and tightly correlated with the rate of inflation* (as before, inflation is measured by the annual percent change in the wholesale price index, and both series in the chart are smoothed as 3-year moving averages).

[21.] The sharp spike in the ratio of earnings per share to wages during the 1990s was probably exaggerated by WorldCom and Enron-like accounting practices. Current 'guesstimates' suggest that throughout that happy decade, legal creativity and plain fraud helped overstate U.S. corporate profits by 10 to 30 percent relative to 'conventional' accounting standards.

[22.] This proxy for depth, based on relative profit shares, is slightly different from the one based on relative profit per employee as defined in Section 5. In 1994, Fortune stopped publishing aggregate employment data for its 500 listing, making the latter proxy difficult to compute. It should be noted, however, that until 1993, the two measures were very tightly correlated.

Figure 4 – U.S. Inflation and Capital-Labor Redistribution*



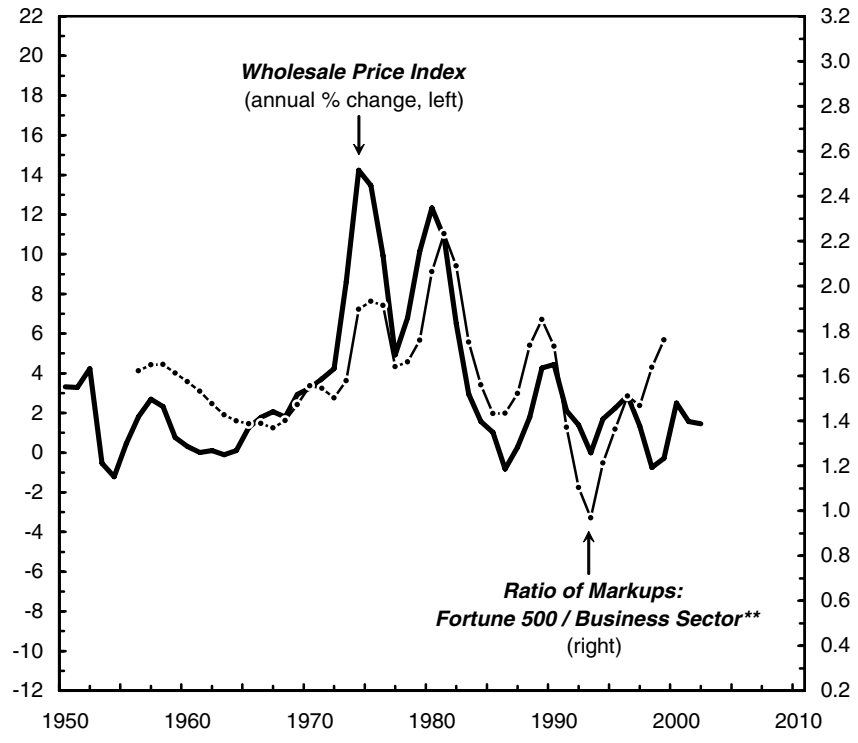
* Series are smoothed as 3–year moving averages.

** Corporate earnings per share are for the S&P 500 Index (ratio of price to price/earnings). The wage rate is the average hourly earning in the private sector.

Source: Global Financial Data (series codes: _SPXD for price; SPPECOMW for price/earnings); U.S. Department of Commerce and U.S. Bureau of Labor Statistics through WEFA (series codes: AHEEAP for the wage rate; WPINS for the wholesale price index).

This positive correlation is rather remarkable, particularly in light of the common belief, popular since Means (1935) and Hall and Hitch (1939), that large firms aim at maintaining a long-term 'target rate of return,' and that their prices are relatively 'inflexible' when compared with those of small firms whose own markups are set by 'market conditions.' Note, however, that this belief was substantiated by evidence derived mostly from the first half of the century, and particularly from the deflationary 1930s. The second half of the century, though, gives a totally different picture. As Figure 5 suggests, since the 1950s, increases in U.S. inflation were associated with—and probably driven by—large firms

Figure 5 – U.S. Inflation and Differential Accumulation*



* Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing and/or mining). In 1994, the list was expanded to include all corporations. For 1992–3, data for Fortune 500 companies are reported without SFAS 106 special charges. All series are smoothed as 3-year moving averages.

** The markup is the percent of net profit in sales. The Fortune 500 markup is the percent of after tax profit in sales revenues. The business sector markup is computed by dividing total corporate profit after tax, with IVA and CCA (from the national income accounts) by total business receipts (from the IRS). The 'Ratio of Markups' is giving by dividing the Fortune 500 markup by the business sector markup.

Source: U.S. Department of Commerce through WEFA (series codes: ZAADJ for total corporate profit after tax with IVA and CCA; WPINS for the wholesale price index); U.S. Internal Revenue Service; *Fortune*.

actively pushing up their profit markups faster than smaller firms. And the exact opposite happened on the way down, with falling inflation associated with large firms seeing their markups drop relative to the average. In other words, inflation provided a powerful engine of *differential accumulation*.[23]

Clearly, U.S. inflation has not been 'neutral' in the least. On the contrary, it has been associated with a *systematic* redistribution of income from workers to firms, and from small firms to large firms. That in itself is already a good enough reason to doubt conventional inflation theory. But what is really remarkable here is that the *direction* of these two correlations has remained the same for half a century or more.

Patterns

Redistribution is a matter of power, and power can shift over time. So even if we accept that 'inflation is always and everywhere a redistributional phenomenon,' there still is no inherent reason to expect it *always* to work in favor of capital in general and in favor of dominant capital in particular. For instance, in Israel, much like in the United States, workers tended to lose from inflation and large firms tended to gain at the expense of smaller ones (Nitzan and Bichler 2002: CH. 4). By contrast, in Germany and France, two countries where labor is relatively strong, the impact of inflation on labor/capital redistribution has been far less clear (the highly aggregated nature of OECD data makes it difficult to draw conclusions regarding the performance of large versus small firms).

Evidently, then, the link between inflation and redistribution has no preset pattern. Inflation itself is a tricky process; its consequences in the cases examined here depend on the power of dominant capital vis-à-vis labor and relative to capital in general—neither of which can be determined a priori; and the distributional outcome can change over time. In this light, the fact that the U.S. experience has been so systematic in one direction is highly significant.

The implication of this systematic pattern is that, in the United States (as well as in other countries with a similar pattern), inflation has become a very potent—and fairly 'reliable'—engine of differential accumulation. With a long history to learn from, companies know that inflation helps them raise their profit faster than it helps workers raise their wages. They know that it helps them more if they are large than if they are small. And they know that there is a certain regularity to the process. In short, *they know more or less what to expect*.

Accumulation Through Crisis

But, then, if all of these claims are true, why does dominant capital not support indefinite inflation? The basic reason is that inflation, although usually effective in generating differential accumulation, is also socially destabilizing

[23.] For similar evidence and analysis of the relationship between inflation and differential accumulation in Israel and South Africa, see Nitzan and Bichler (2000b; 2001).

and often difficult to manage and contain, and therefore causes capitalists to perceive the world around them as more 'risky.'[24]

As we claimed earlier in the paper, over the long run inflation tends to coincide with stagnating production and high unemployment. This claim is certainly unconventional. Indeed, the facts notwithstanding, most economists would probably reject it outright. As a monetary phenomenon, they would counter-argue, inflation can have no lasting impact on the 'real' world. They would concede that inflation could be *triggered* by 'real' variables—but certainly not by stagnation. To the contrary, the popular macroeconomic canon stipulates that inflation is triggered by growth and that it decreases with recession.

Unfortunately, here too the facts refuse to obey the theory. Figure 6 shows the long-term relationship between inflation and economic growth in the United States, going back to 1890 (with the series smoothed as 20-year moving averages). The data show quite clearly that the relationship between the two phenomena is not positive, but negative. Low inflation is associated with high growth, whereas high inflation is commonly accompanied by stagnation—the *exact opposite* of what conventional theory wants us to believe. Inflation tends to appear as *stagflation*. And this 'perverted' relationship is hardly limited to the United States. In fact, during the postwar period the long-term negative correlation between growth and inflation has become the rule rather than the exception, reproducing itself in country after country, developed as well as developing (see for example, Nitzan 1995a; Nitzan and Bichler 2002: Figure 2.8, p. 71).

Why do these facts differ so dramatically from popular convention and economic theory? The reason has much to do with the timeframe. The argument that rapid growth triggers inflation can make sense only in the very short term and under the very stringent assumption that capacity is already fully utilized and cannot be immediately expanded to meet runaway demand.

This latter situation, however, is both rare and transitory. First, under so-called 'normal' conditions, physical capacity is never fully utilized. To illustrate, over the past century the average rate of unemployment in the United States has stood at 7 percent, and that excludes the categories of part-timers and the underemployed (not to mention those who choose not to work, are discouraged, or are incarcerated, and therefore considered 'not in the labor force'). Various estimates of the utilization of *actual* capacity range from 25 percent to 50 per-

[24.] Insofar as the perceived increase in 'risk' exceeds the increase in expected income, the net effect of inflation will be lower asset prices. The impact on *relative* asset prices, however, is far more complicated (see footnote 20).

cent.[25] Second, as overall growth continues, green-field investment and capacity tend to rise even faster, causing 'bottlenecks' to give way to 'glut.'[26]

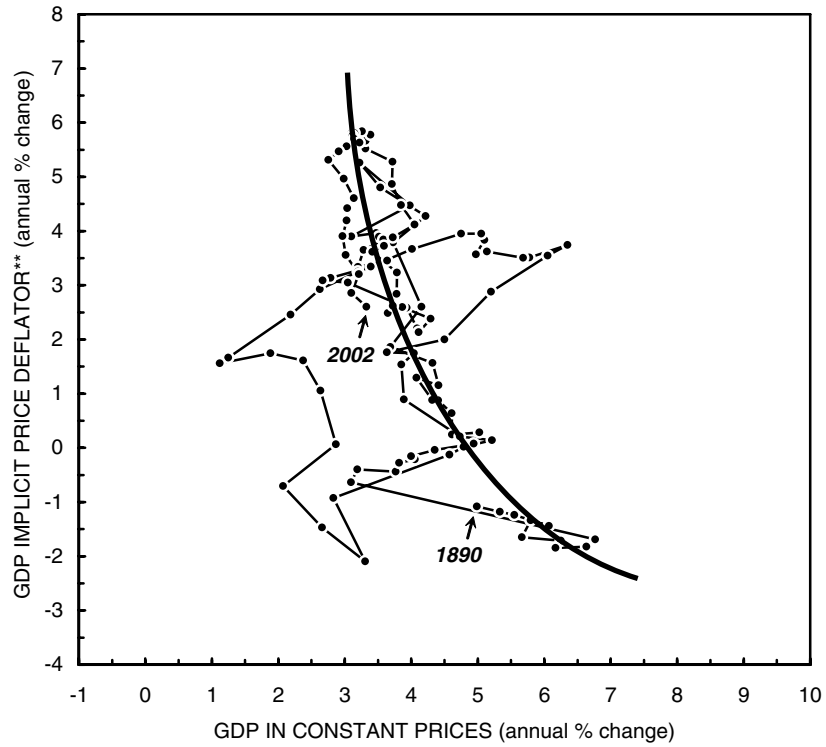
The question, though, is, why, in the absence of any real 'shortage,' are buyers willing to pay higher prices? The short answer is that usually they are not willing; they are *forced*. And the way to force them is by creating, imposing and maintaining various forms of social crisis, apparent or real. Military hostilities during the First World War, the reparation crisis of Germany in the 1920s, the global oil crises of the 1970s, rising unemployment in Israel during the 1980s, political instability in Russia circa 1990s, debt default in Argentina in the 2000s are all illustrations of such inflation-triggering crises. The effect of these crises on inflation is twofold. On the one hand, they undermine the power of most people to resist price increases. On the other hand, they enable a 'consensus' to emerge within dominant capital that inflation can be used with 'impunity.' In this sense, stagflation is the macroeconomic appearance of 'accumulation through crisis.' Stagnation and unemployment, along with other forms of instability, conflict and force, constitute the necessary backdrop for differential accumulation through differential inflation.

But the process is highly perilous. More inflation usually requires a more intense crisis and therefore implies mounting hazards. Those who lose from inflation begin to oppose it, and even if they fail to stop it, instability heightens. And, so, although the potential gains from inflation are huge, they are commensurate with the risks—risks to differential accumulation specifically, and risks to the hegemony of capital more generally. From the viewpoint of dominant capital, therefore, inflation is forever a double-edged sword. Effective but highly

[25] Conventional capacity measures consider what is feasible *under the existing social order of business enterprise and production for profit*, and they usually estimate normal utilization to be in the 70 to 90 percent range. Alternative measures based on a *material/technological* limit, however, suggest a far lower utilization of capacity. At the turn of the twentieth century, Veblen (1919: 81) put the actual rate of utilization at less than 25 percent, a figure not much different from later estimates reported in Blair (1972: 474) and Foster (1986: CH. 5). Interestingly, though not surprisingly, U.S. military contractors, engaged in the most destructive form of business enterprise, sometimes operate at as little as 10 percent of their 'capacity' (U.S. Congress 1991: 38).

[26] To illustrate, think of East Asia during the 1990s, where annual growth rates of 8 to 9 percent were associated with *falling* export prices. Was there anything mysterious behind this combination of growth and deflation? Hardly. Despite the rapid growth (or rather because of that growth), the investment-to-GDP ratio kept rising, while East Asian companies kept undercutting each other in a hyper-competitive trench war. It is no wonder that their prices kept falling.

Figure 6 – United States: Long Term Inflation and Growth*



* Series are shown as 20-year moving averages. The smooth curve running through the observations is drawn freehand for illustration purposes.

** Ratio of GDP in current prices to GDP in constant prices.

Source: Historical data till 1928 are from Bank Credit Analyst Research Group. From 1929 onward, data are from the U.S. Department of Commerce through WEFA (series codes: GDP for GDP; GDP96 for GDP in constant prices).

dangerous, it is *not* the weapon of first choice. It tends to emerge only when there is 'no alternative.'

8. THE NEW ARSENAL

To recap, the twentieth century fundamentally altered the nature of accumulation. The emergence of big government and big business gave rise to a new consolidation, 'dominant capital.' The new institution of incorporation, which for Marx signaled the 'abolition of capital as private property within the framework of capitalist production itself,' along with the rise of big government, helped create massive power coalitions that further intertwined business

owners and state organs. In parallel, the 'larger use of credit,' whose significance was first studied by Thorstein Veblen, gave capital the infinitely malleable form of finance.

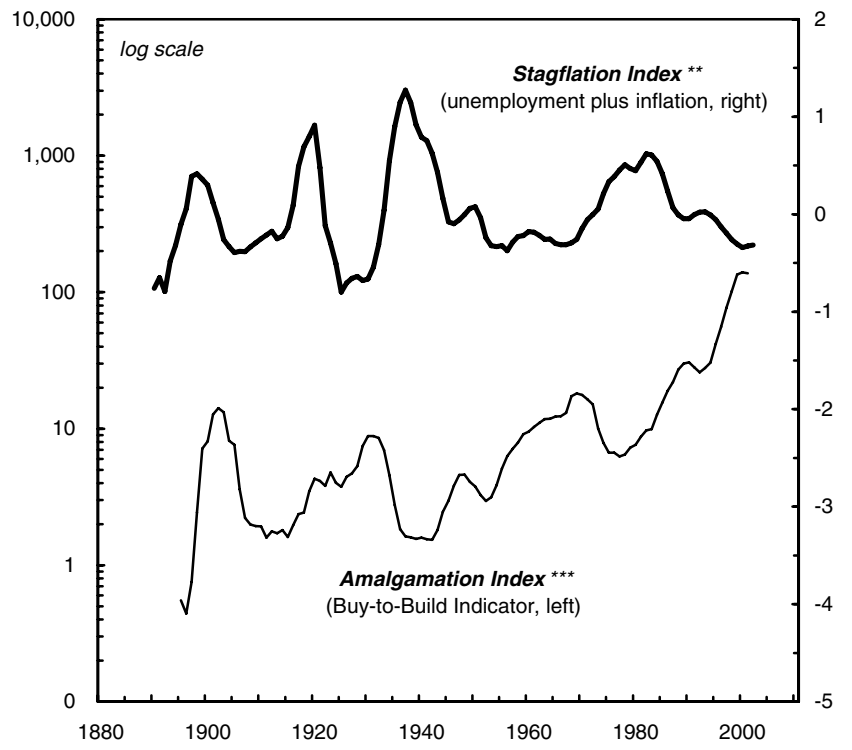
Accumulation in the nineteenth century was thought of—certainly by theorists—largely in *absolute* terms. As such, it depended on economic growth and relative price stability; it was led by imperial conquest; and it was backed by a gold standard. In the twentieth century, and particularly after the Second Word War, the emphasis shifted toward *differential* performance. Furthermore, the arsenal of accumulation expanded to incorporate two brand new techniques—corporate amalgamation and stagflation.

Thus, instead of economic growth, dominant capital resorted more and more to corporate merger, and in lieu of geographic conquest it relied increasingly on foreign investment and the spread of business ideology and standardized accounting. The use of force in accumulation was not abandoned, of course, although it was greatly refined. Whereas previously force was often used for straightforward 'material' confiscation, now it was utilized in a more roundabout way. Instability, conflict and stagnation were now denounced as being 'bad for accumulation.' But behind the façade, they enabled a stealthy process of accumulation through inflation. The gold standard, incompatible with this new accumulation technique, was doomed. Sooner or later it had to give way to the more flexible power of purely fiat money and unbounded credit. And indeed, differential inflation, invisibly mediated through stagnation and crisis, brought a surprisingly 'orderly' redistribution of income from workers to owners and from small firms to dominant capital.

Historically, the new accumulation arsenal of amalgamation and stagflation worked with increasing precision and surprising regularity. Figure 7 illustrates the evolution of this pattern in the United States (with series smoothed as 5-year moving averages). The bottom series in the chart is our amalgamation index, measuring the buy-to-build ratio introduced in Figure 2. The top series provides a 'stagflation index.' The construction of this index is relatively straightforward. We begin with two basic series: the annual rate of unemployment, which is a proxy for stagnation, and the annual rate of change of the Implicit GDP Deflator, which is a proxy for inflation. We then express each of these series in terms of standard deviations from its own historical average (for 1890–2001), add up the two standardized series and divide the sum by two.

Now note that, over the past century, the United States has always had some unemployment (read stagnation), along with a positive rate of inflation (with the exception of the Great Depression, when differential inflation was hidden by aggregate deflation; see footnote 18 above). With the exception of the 1930s, then, the *entire period was one of stagflation*. The purpose of the stagflation

Figure 7 – Amalgamation and Stagflation in the United States*



* Series are shown as 5-year moving averages (the first four observations in each series cover data to that point only).

** Computed as the average of: (1) the standardized deviations from average of the rate of unemployment, and (2) the standardized deviations from the average rate of inflation of the GDP implicit price deflator.

*** Mergers and acquisitions as a percent of gross fixed capital formation.

Source: The stagflation index is computed from data from the U.S. Department of Commerce through WEFA (series codes: RUC for the rate of unemployment and GDP/GDP96 for the GDP implicit price deflator). The Amalgamation Index is from Jonathan Nitzan and Shimshon Bichler, *The Global Political Economy of Israel* (London: Pluto Press, 2002), Data Appendix, pp. 82–3 (updated to 2001).

index is to describe the changing 'intensity' of that process. An index reading of zero represents the average, or 'normal' intensity of stagflation over the past century. A positive reading for the index means a combination of above average stagnation and/or inflation; that is, above average stagflation. Similarly, a

negative reading on the index means a combination of below average stagnation and/or inflation; namely, below average stagflation.

Of the two differential accumulation weapons—merger and stagflation—the former has proven more effective and less risky. As we have already seen in Figure 2, the ratio of merger to green-field investment has risen exponentially over the past century. And since corporate amalgamation, almost by definition, contributes to differential accumulation, it is no surprise that merger and takeover were enthusiastically endorsed by dominant capital, government organs and academic ideologues—all in the name of productive 'efficiency' and national 'competitiveness.'

A merger boom is largely incompatible with stagflation. Corporate takeover thrives on investors' hype and an open takeover pool, which in turn require some measure of growth, proletarianization, capital mobility and relative political stability—the exact opposite of the crisis atmosphere needed for inflation. In other words, differential breadth through corporate amalgamation and differential depth via stagflation are *contradictory paths*, each depending on an opposite set of social circumstances. In this sense, we can treat each path as a distinct 'regime' of differential accumulation. Of these two regimes, merger is the path of least resistance, and when it prevails, stagflation is likely to be dormant. But as noted in Section 6, amalgamation is sometimes difficult, and when its pace declines, the door opens for the crisis-ridden but highly effective path of stagflation.

It is crucial to emphasize, again, that our argument here is neither 'economistic' nor 'deterministic.' Differential accumulation is not about 'economics.' It is about power and opposition to power. The symbolic form of this power is financial, but its content is political in the broadest sense of the term. Differential accumulation is evidence—certainly in the mind of accumulators—of growing social power. Indeed, without power, there could be no differential accumulation. This emphasis on power and resistance to power also suggests, and here we come to the issue of determinism, that the process does not have to follow a preset pattern—or *any* pattern for that matter. Simply put, differential accumulation *does not have to happen*. It will happen if there are mergers. It will probably happen if there is stagflation. But mergers and stagflation themselves do not have to happen. Dominant capital may seek mergers or stagflation, but it could fail to achieve them—fail because of opposition, inner conflicts, or its own incompetence. And if neither merger nor stagflation prevails, the likely result is differential *decumulation*.

In this light, the stylized pattern evident in Figure 7 is remarkable, to say the least. The chart shows the amalgamation and stagflation cycles moving almost as mirror images of each another. And what is more, the negative correlation between them seems to have grown tighter over time.[27] Given that both regimes serve to boost differential accumulation, it is clear that, *de facto*, dominant capital has been increasingly effective in securing its power. But none of this was 'automatic.' The power of dominant capital is conscientiously constructed against opposition. It is replete with conflict and besieged by contradictions. It can fail.

9. DEFLATION

The conjectural nature of the process is all too clear at the present moment, as is illustrated by the last few data points in Figure 7. In 2000, corporate amalgamation collapsed, bringing the twenty-year global merger wave to an end (see also Figure 2). In parallel, the long downtrend in stagflation seems to have bottomed out.

This apparent swing of the pendulum—should it materialize—has been long in coming (and indeed predicted—see for instance Nitzan 1999; 2001). Over the past twenty years, the prolonged process of breadth expansion, particularly the opening up for business and green-field investment of 'emerging markets' in Asia, Latin America and the former Eastern Block, has created a massive global glut. Although mergers worked to contain these centrifugal forces to some extent, they could not stop them. And as a result, the intensity of stagflation declined more or less continuously since the mid-1980s, and in 2001 reached its lowest level in 70 years, according to Figure 7.

By the end of the twentieth century, corporate 'pricing power' had weakened to its lowest point since the Great Depression. CPI inflation in the industrialized countries declined throughout much of the 1980s, reaching 1 percent in 1999—its lowest since the 1950s (see Figure 10 below). Similarly, in 2000, with the 'new economy' hype having been punctured, corporate earnings—both globally and in the U.S.—took a nose-dive, showing their steepest drop since the 1930s.

Clearly, the current situation is not the best for dominant capital. Indeed, with mergers having entered a deep freeze and unlikely to revive any time soon, and with pricing power in the doldrums, there is a real threat of differential *decumulation* taking hold.

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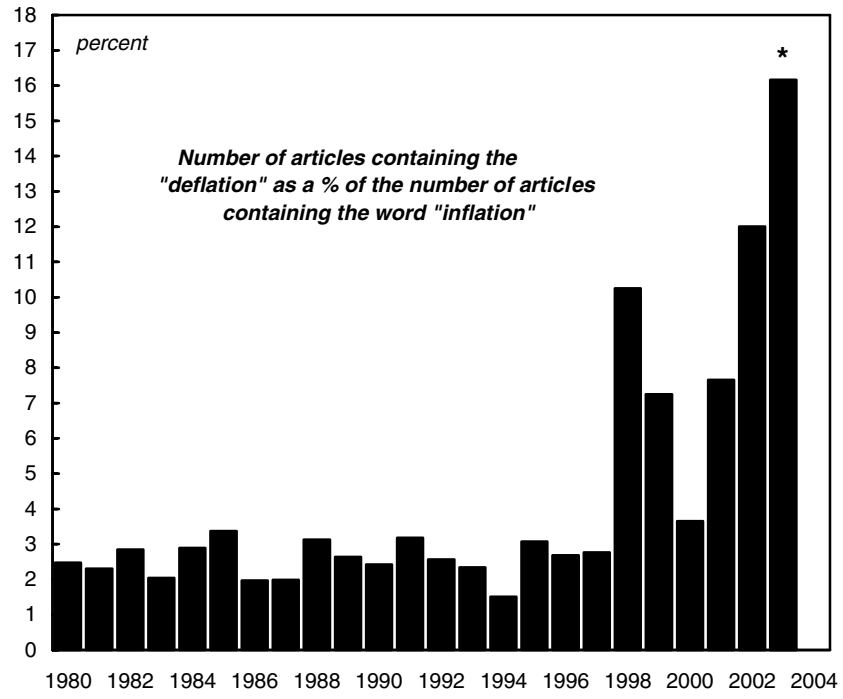
27. The 25-year moving correlation between the stagflation and amalgamation indices (with the amalgamation index measured as natural log and expressed as deviation from its own trend) rose from a +0.08 in 1914, to −0.94 in 2001.

Figure 8 – The Threat of Deflation



* January-April.

Source: *Business Source Premier.*

The Risk

The negative sentiment is most vividly captured by the sudden reappearance of a new-old threat: *deflation*. For much of the postwar era, the policy and academic rhetoric was focused almost exclusively on inflation. This preoccupation began in the early 1940s. Within a few years after the Great Depression, deflation had already become a distant memory. John Maynard Keynes, who had just published the seminal text on how to fight unemployment, quickly shifted his attention to the threat of rising prices. His subsequent book, aptly titled *How to Pay for the War* (1940), set the tone. From then on, the goal was to stop inflation. Forty years later, theorists and central bankers finally saw light at the end of the tunnel: in the 1980s, inflation began to ease. The rhetoric, though, had not changed much. The experts became less fearful of the (neutral) beast, and there was a lot of self-congratulating analysis for winning the anti-inflation

'battle.' But the discourse was always qualified by a call for vigilance. The monster was indeed caged, but it could always escape. When it came to inflation, you could not be overly cautious.

And then, suddenly, the tone changed. The reversal is starkly illustrated in Figure 8. The data in the chart are derived from a text search of EBSCO's *Business Source Premier*, a database covering more than 2,800 scholarly business journals in English. For every year since 1980, we counted the number of articles that contained the word 'deflation' and the number of articles that contained the word 'inflation,' and we computed the ratio between them.

The result points to 1998 as a clear watershed. Till then deflation was not even on the radar screen: the ratio of deflation-to-inflation articles averaged 2.5 percent and rarely exceeded 3 percent. But in 1998, with fear of glut finally triggering the Asian Crisis, and with 'contagion' beginning to infect the major stock markets, concern for deflation skyrocketed and the index jumped more than fourfold, to over 10 percent. Initially, the unfolding high-tech mania helped camouflage the problem, making the 1998 episode look like false alarm. But the high-tech mania was coming at the cusp of the long breadth regime of corporate mergers. And when, in the early 2000s, the floor finally fell out and the stock market collapsed, the deflation-to-inflation index jumped to nearly 8 percent in 2001, rising further to 12 in 2002, and to 16 percent in the first four months of 2003. The ghost of deflation came back with a vengeance.

The current fear of deflation is not unfounded. Falling prices obviously are a threat to differential accumulation. With mergers stuck in neutral, dominant capital now needs to kick-start inflation, not combat deflation. But the problem runs much deeper. Over the past half-century, and particularly since the early 1980s, debt loads measured relative to GDP have soared to unprecedented levels.[28] The increase in debt has taken place in the context of continuously rising prices, which, by inflating nominal GDP, have worked to partly mitigate the rising debt burden. This mechanism of lessening the debt load no longer works if prices stabilize; and it goes into reverse if prices start falling. Indeed, under the latter circumstances, central bankers may find it difficult to lower

[28] The increase in debt loads reflects a combination of several factors, including rising 'multiple counting' of chained obligations, fresh capitalization of previously non-capitalized incomes, increases in expected future income, a willingness to accept a lower 'normal rate of return,' and, paradoxically, a drop in perceptions of risk. The overall extent of the surge in the debt-to-GDP ratio is probably understated by the explosive growth over the past twenty years of 'off-balance sheet' obligations.

'real' interest rates (since depositors generally refuse to accept negative nominal rates); overextended debtors may become unable to service their debt; and some of these debtors may be forced into bankruptcy. If the process unfolds into a chain reaction, it could conceivably lead to a runaway debt deflation, not unlike the one experienced during the 1930s.[29]

As illustrated in Figure 9, the magnitude of this threat is serious, to put it mildly. The chart shows, for the period of 1919 to 2002, the value of U.S. total credit market debt expressed as a percent of GDP. It also depicts, for both developed and developing countries since the early 1960s, the growth of total credit to the private sector relative to GDP.

All three series suggest that debtors have become extremely leveraged. In the United States, the current debt load is nearly twice as high as it was in 1929, on the eve of the Great Depression. As the Great Depression unfolded, falling nominal GDP caused the debt-to-GDP ratio to soar to over 270 percent. A comparable decline in nominal GDP today would push the debt-to-GDP ratio to over 400 percent. The data for the broader aggregate of countries cover only the private sector, but it is obvious that here, too, there is extreme stress. In the developed countries, the ratio of private credit to GDP is three times what it was in the early 1960s, whereas in the developing countries it is nearly four times as high.

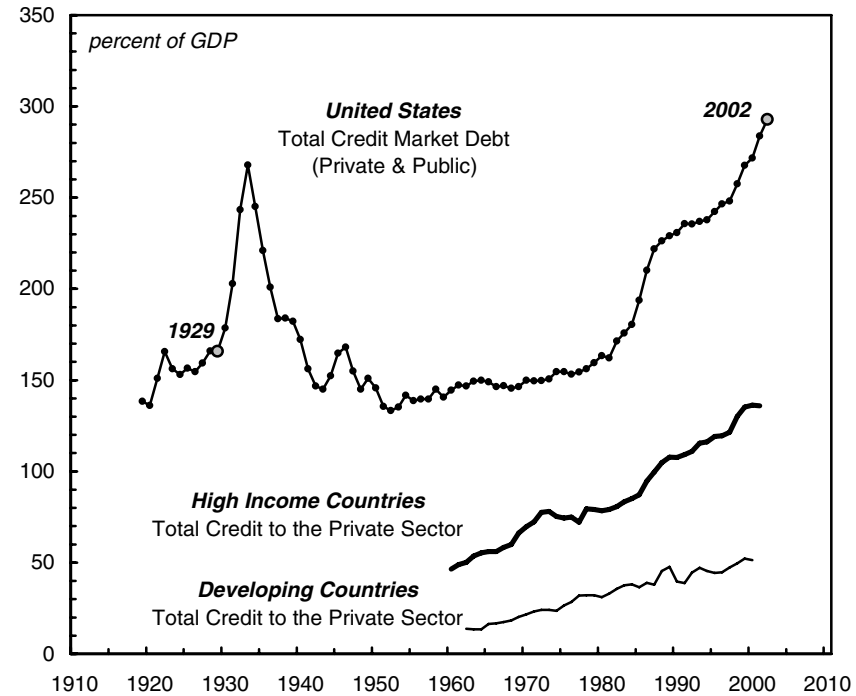
The 'Solution'

There are two basic 'solutions' to this threatening 'imbalance.' One is to cut the amount of outstanding debt through default (debt forgiveness being a non-option). The other is to increase nominal GDP through price inflation, while keeping 'real' interest rates relatively stable ('real' GDP growth being too slow for this purpose). Most practical economists consider the first solution far too painful to contemplate, so their preference naturally gravitates toward the second.

'Ignore the Ghost of Deflation,' recommends *Financial Times* columnist Samuel Britton. 'Apart from Japan,' he observed, 'the world has not seen deflation for 70 years' (as if the world's second largest economy can be treated as an anomaly, and '70 years' as a magic threshold beyond which deflation can

[29] The first to analyze the process of debt deflation in some detail was the American economist Irving Fisher (1933). Fisher wrote his analysis after the 1929 Crash wiped out much of his own fortune of $10 million (over $100 million in today's prices), a fortune which he invested under the sound assumption that money was 'neutral' and that debt loads did not matter.

Figure 9 – The Debt Load



Source: Bank Credit Analyst Research Group; *World Development Indicators*.

never return). 'Deflation is an overblown worry,' declares James Grant, editor of *Grant's Interest Rate Observer*. 'Believe in Ghosts, Goblins, Wizards and Witches if you will,' concurs financial expert Adrian Douglas, 'but don't believe in deflation occurring any time soon.' There is little to worry about, says Fed Chairman Alan Greenspan: 'The United States is nowhere close to sliding into a pernicious deflation.'[30]

Of course, denying the problem does not solve it. And, so, for those who remain fearful, the experts promise that whatever the risk, it could easily be defused. 'The good news,' announces former member of the Federal Reserve Board, Angell Wayne, 'is that monetary policy never runs out of power.' 'There's

[30] All quoted statements in this paragraph and the next were made in 2002, and except the one by Bernanke, all are cited from Prechter (2003: 11)

a much exaggerated concern about deflation,' laments Nobel Laureate Milton Friedman. 'It's not a serious prospect. Inflation is still a much more serious problem than deflation. Today's Federal Reserve is not going to repeat the mistakes of the Federal Reserve of the 1930s. The cure for deflation is very simple. Print money.' The same assumption underlies the soothing speech by Fed Governor Ben Bernanke, given in 2002 to the National Economist Club. In his address, properly titled 'Deflation: Making Sure "It" Doesn't Happen Here,' Bernanke explained that 'Deflation is always reversible under a fiat money system.' 'The U.S. government,' he assured his audience, 'has a technology called the printing press that allows it to produce as many U.S. dollars as it wishes at essentially no cost' (Bernanke 2002).

Unfortunately, the matter is not that simple. The central bank can certainly print as much 'high-powered money' as it wants. But that act in itself does not necessarily mean higher prices, nor does it defuse the concerns of creditors. On its own, it is like 'pushing on a string,' as Keynes would have put it. For loose monetary policy to 'translate' into inflation you need to have individual companies and workers *actually* raise their prices—and that may or many not happen. Japan after its 1989 market crash is a case in point: interest rates have fallen to zero and money has been made practically free—and yet deflation, not inflation, has prevailed. Alternatively, and as pointed out correctly by Robert Prechter (2003), simply opening the monetary flood gates when debt loads are extremely high could easily create panic, leading to distress selling among bond holders and loan calling by creditors. The result of this scenario is to trigger the very debt deflation that policy loosening was meant to prevent.

10. THE OIL FACTOR

Differential Profits and the Inflation Outlook

Inflation cannot be 'kick-started' simply by having central banks print money. As we said, it has to start by having firms and/or workers charge higher prices for the goods and services they sell. Now, unlike corporate mergers, which individual firms can pursue more or less unilaterally, no single corporation can start inflation 'on its own.' Raising your prices when no one else does is business suicide. A similar limitation restricts workers' wage demands, especially in a global context where production can be relocated easily. For prices to start rising, particularly after a long period of relative stability and under conditions of perceived 'glut,' the stronger groups in society must share a *common outlook* that inflation is indeed coming. And this collective outlook is most likely to emerge when these dominant groups feel that inflation is not only 'inevitable,' but also *in their differential interest*.

In this sense, rising inflation is not very different from an investment-led boom. There is little to prevent any individual firm from building new capacity. But for firms to actually go ahead and build new factories, they need to believe that this new capacity will increase profit in the future; and that belief is most likely to trigger action when it is commonly shared. In other words, it is only when *many* firms begin to view green-field investment favorably that *individual* companies begin to spend money on new plant and equipment.[31] Once the process is set in motion, increases in production, income and spending make these profit expectations self-fulfilling, but the initial spark usually requires a change in the *broad outlook of companies*.

A similar process unfolds when inflation begins to accelerate. As more and more firms start raising prices, and as income begins to be redistributed from workers to firms (Figure 4) and from smaller firms to larger ones (Figure 5), expectations for differential inflationary profits are 'validated,' leading to even more price hikes. But like with investment, here, too, in order for the process to begin, there needs to be a common expectation, a shared view among the dominant groups in society that inflation will boost their differential profit.

Note our emphasis here on *profit expectations* rather than *price expectations*. The difference is crucial. In mainstream economic theory, according to which everyone is powerless, price expectations can only be part of a *passive mechanism* in which 'agents' simply react to expected changes, their sole purpose being to *sustain* their existing equilibrium income. In the context of differential power, however, profit expectations become part of an *active strategy* to *enhance* one's relative position.

But first there must be the *initial* change in differential profit expectations, and, as these lines are being written (early 2003), it seems that this change may have begun. Dominant capital already feels its back pressed against the wall. As we have seen, merger activity has dried up and deflation increasingly is viewed as a threat. There is now a yearning among large firms for some 'pricing power,' even at the cost of stagflation and social instability. 'Greenspan must go for higher inflation,' insist Bill Dudley of Goldman Sacks and Paul McCulley of Pimco in a recent *Financial Times* article. 'Inflation is too low, rather than too high,' they warn, and 'the Fed should welcome a modest rise in inflation' (Dudley

31. Note the fundamental difference between boosting current production to meet current increases in sales and building new factories whose profitability will depend on conditions that will prevail a few years down the road. In the first case, the impact on profit is nearly certain, in the latter highly conjectural.

and McCulley 2003). And it is not as if the Fed has not been trying. Over the past two years Alan Greenspan has cut interest rates to levels last seen in the happy 1960s, making money cheaper and cheaper. Fear of deflation is finally creeping into the Fed's own statements. In a recent announcement, Greenspan warned of 'unwelcome substantial fall in inflation' (Press Release, May 6, 2003). That is probably the first time since the Great Depression that the U.S. central bank has said that lower inflation is 'unwelcome.' And a few days later, Treasury Secretary John Snow extended another invitation for inflation when he suggested that his government would abandon its eight-year 'strong-dollar policy.'[32] Clearly, the circumstances have become ripe for a regime change. The only thing missing is a 'spark.'

Inflation and the Price of Oil

In principle, many events could trigger a change in the collective mindset of dominant capital. A declaration of war, a sudden devaluation, massive riots, etc., could each do the trick. Over the past quarter-century, however, the most effective inflation spark, undoubtedly, has been a *rise in the price of oil*.

The statistical correlation between oil prices and overall inflation is illustrated in Figure 10. The thick line shows the annual CPI inflation in the industrialized countries (measured as the percent rate of change between the same months in successive years). The thin line denotes the so-called 'real' price of oil, denominated in 2002 U.S. dollars (computed as the dollar price of crude oil divided by the U.S. CPI). A rise in the 'real' price of oil means that the U.S. dollar price of oil increased faster (or fell more slowly) than the U.S. consumer price index, and vice versa when the 'real' price of oil dropped. As the chart shows, until the early 1970s the 'real' price of oil had little relationship with inflation. From the mid-1970s onward, however, oil clearly became a 'leading indicator' for inflation. It 'led' inflation on the way up, it 'led' it on the way down, and, apparently, *it still leads it today*.

Note that we emphasize here oil prices as a 'leading indicator' rather than a 'direct cause' of inflation. The relationship between oil prices and inflation is

[32] Incidentally, this announcement flies in the face of suggestions that the U.S. attack on Iraq was partly motivated by a desire to 'defend' the dollar. According to that argument, OPEC was allegedly planning to denominate its business in Euros instead of dollars, a move which would have weakened the dollar; hence the U.S. conquest of Iraq to prevent that switch from happening. Snow's announcement puts a big dent in this thesis.

only partly anchored in the role of oil as a key production input.[33] The more important reason for the correlation is that the leading capitalist groups tend to view the price of oil as a 'barometer' of future inflation and adjust their overall pricing strategies in line with its fluctuations.[34]

In 1999, when falling crude oil prices approached $10 a barrel, *The Economist* of London confidently predicted further declines. 'The world is awash with oil,' it stated, 'and it is likely to remain so' (Anonymous 1999a). In that same year, the more cautious U.S. Energy Information Administration predicted that oil prices would rise by a modest 2.5 percent annually for the next seven years.[35] With the breadth regime seemingly in full swing, happy scenarios of this type seemed perfectly plausible. Dominant capital was busy taking over other firms and hyping up its high-tech assets. It wanted to hear nothing of oil shocks and inflation.

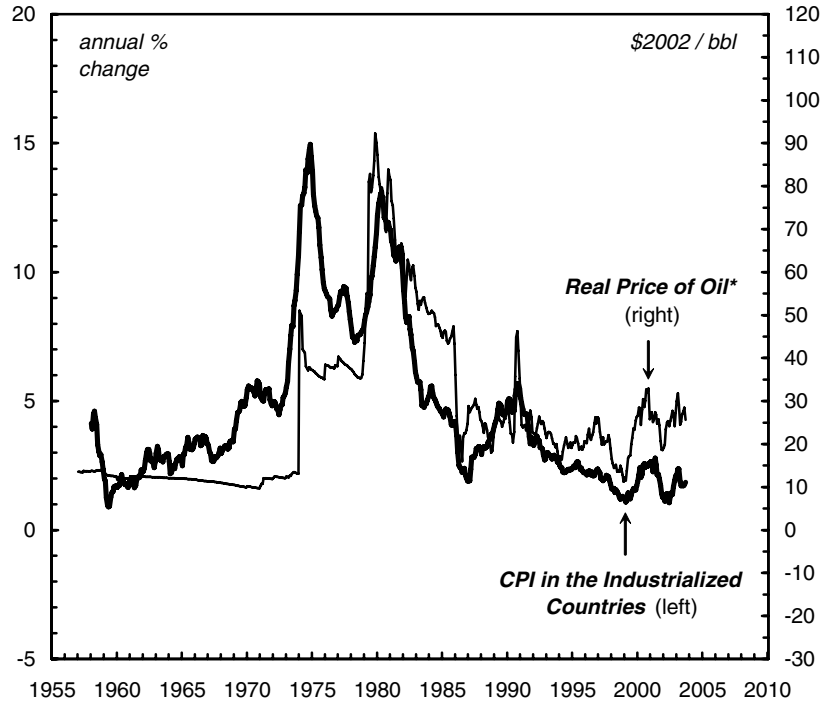
But the world was changing rapidly. In 2001, differential breadth came crashing down. Dominant capital, which till then had insisted on neoliberal 'sound finance,' suddenly became thirsty for depth-driven inflation. And then, with little warning and in open defiance of both 'market forces' and the experts, the price of oil tripled. As before, consumer prices followed suit. Yet, as Figure 10 shows, so far the increase in consumer prices remained muted.

[33] Over the past twenty years, the role of crude oil as a key input has declined dramatically. Energy efficiency has doubled, while the 'real' price of oil has fallen by almost two thirds. As a result, the dollar value of oil produced in 2001 accounted for only 2.1 percent of world GDP, compared to 7.5 percent in 1980. And yet, despite this massive decline in the input role of oil, the relationship between oil prices and inflation has remained practically unchanged (figures computed from British Petroleum Annual; World Bank Annual).

[34] In fact, the greater the extent to which higher oil prices are 'passed on' to final prices, the *less* the correlation should be between the 'real' price of oil and the rate of inflation. This situation seems to have prevailed until the early 1970s: the nominal price of oil rose; overall prices increased at roughly the same rate; and, as a consequence, the 'real' price of oil remained more or less flat. From the early 1970s onward, however, the 'real' price of oil became positively correlated with inflation, which means that changes in oil prices were only *partly* 'passed on' to consumer prices. It is clear, then, that the post-1970 mechanism was neither 'automatic' nor 'neutral.' It involved redistribution in favor of owners of oil when oil prices rose and redistribution in favor of owners of other commodities when the price of oil fell.

[35] Computed as the compounded annual growth rate which would make the EIA 1999 benchmark price rise from its actual average of $17.26 in 1999 to its forecast level of $20.15 in 2006. http://eia.doe.gov/oiaf/analysispaper/pdf/table13.pdf

Figure 10 – Inflation and the Price of Oil



* $ price of crude oil deflated by the U.S. CPI.

Source: *International Financial Statistics* through WEFA (series codes: L64@C110 for CPI in the industrialized countries; L76AA&Z@C001 for the price of crude oil; L64@C111 for the U.S. CPI).

That dominant capital has an interest in higher inflation right now seems beyond doubt. In the absence of inflation, it faces the dual risk of debt deflation and differential decumulation. The way out of this predicament is a change in differential accumulation regime—from breadth through merger to depth through stagflation. And the most likely trigger for the shift is a significant—and sufficiently persistent—increase in the price of oil.

This last requirement is worth elaborating. Dominant capital presently has an interest in inflation, but judging by its hesitant response to the recent oil price hikes, it is not yet sure that such inflation is coming. In order for the collective mindset of dominant capital to decisively shift toward depth and inflationary profit, the 'oil spark' probably needs to be both stronger and longer. And that strong and long spark requires agency.

To reiterate, there is nothing 'inevitable' about this chain of events. As we said, differential accumulation may or may not happen. Likewise, there is no historical 'law of motion' dictating a timely shift from breadth to depth. The social and political changes involved in bringing about such a shift are huge, as are the consequences. Furthermore, the processes are both highly complicated and subject to multiple forms of opposition which may or may not be overcome. But to overcome that opposition will probably require a dose of *purposeful human action*.

Differential accumulation is the *financial form* of *increasing capitalist power*. It cannot happen without such power. And power has no meaning in the absence of free will: the freedom to exert it or not to exert it; the freedom to chose its particular form; and, of course, the freedom to oppose it by those on whom it is imposed. If everyone were an automaton in the grand 'structure' of capitalism, there would be no capitalism. The 'structure,' or 'logic' of capitalism is articulated primarily by those who dominate it. Those who dominate it are those who profit the most. And those who profit the most often are those who experience the fastest differential accumulation. If we look for purposeful action in the current historical conjunction, they are the ones we should start with.

II. THE WEAPONDOLLAR-PETRODOLLAR COALITION[36]

The groups that stand to gain the most from higher oil prices and the pendulum shift into depth are the transnational armament and oil companies, and, to some extent, also the oil producing countries. To explain why, it is worth taking a step back and considering some basic aspects of the oil business.

Making the Price Go Up

In a world 'awash with oil,' as *The Economist* put it, oil prices have little reason to rise. And the world is indeed awash with oil. According to the *BP Statistical Review*, current global proven oil reserves are equivalent to 40 production years, up from 30 years in 1960. Of course, these reserves are finite, so, ultimately they will be exhausted. But the exhaustion process has been going on for a century and half, and so far it has had *no systematic impact* on the price of oil.

Similarly with current production. The argument that oil prices fluctuate with 'excess demand' and 'excess supply,' although popular, does not hold much water. If oil prices were indeed responsive to 'market conditions,' we would

36. The theoretical arguments in this and the remaining sections, along with extensive empirical evidence, were first published fifteen years ago, before the 1990–1 Gulf War (Bichler, Rowley, and Nitzan 1989; Nitzan, Rowley, and Bichler 1989; Rowley, Bichler,

expect to see inventories rise when the price of oil fell and vice versa when the price rose. In reality, though, the exact opposite has often happened. During the massive price increases of the 1970s and early 1980s, for instance, inventories actually *rose* instead of fell; and when the price of oil dropped during the 1980s, inventories *fell* instead of rose (Nitzan and Bichler 2002: Figure 5.5, p. 230).[37]

So the price of oil has little to do with physical scarcity. That is obvious enough. But it has everything to do with *perceived* scarcity, and perceived scarcity has everything to do with the Middle East. Although the region currently accounts for only 30 percent of world oil production, it is the only place where production is permanently 'under threat.' These threats vary greatly: there is the threat of war; the threat of internal strife; the threat of Islamic fundamentalism; the threat of coups; you name it. So far, though, none of these threats has ever affected the *physical* availability of oil at the global level. There were of course occasional reductions in the region's output, but these reductions were always compensated for by increases elsewhere, keeping the world total on an even keel. Yet, as we said, considerations of actual supply are beside the point. What counts for the price of oil is risk—or rather, the *perception* of risk—and of this exotic commodity the region has always had ample supply.

Conflicts and Profits

How have these Middle East 'risks' served the large weapon and oil companies? Consider first the armament contractors. After the end of U.S. direct military involvement in Vietnam, domestic military spending fell sharply—from over 10 percent of GDP during Johnson's presidency to less than 6 percent at the end of Carter's (see Figure 16 below). The drop was compensated for to some extent by a sharp increase in military exports, which, by the end of that period, accounted for an estimated one third of all U.S. military-related profit.[38] The bulk of these exports were now going to the Middle East, which, since the early 1970s, had replaced South-East Asia as the world's leading market for exported

and Nitzan 1989). This work was further extended and updated in Nitzan and Bichler (1995), Bichler and Nitzan (1996), Bichler and Nitzan (2001b: CH. 6) and Nitzan and Bichler (2002: CH. 5).

37. A note of caution. According to the logic of neoclassical economics, an increase in inventories is a sign of 'excess supply' only insofar as the inventory buildup is undesired. If the buildup is intentional, it should be counted as part of desired demand, not excess supply. Unfortunately, conventional economics cannot tell us how to distinguish between the two.

38. For the precise computation, see Nitzan and Bichler (2002: 214–6).

weapons and accounted for over one third of the global trade. The relative significance of Middle East sales for the profits of the armament companies declined somewhat during Reagan's military buildup of the early 1980s. But with the armament boom beginning to fizzle out in the late 1980s and turning to bust with the fall of communism, the Middle East once more became a major source of military profits. It seems clear, therefore, that renewed conflict in the region, particularly with direct U.S. involvement, is very much in the interest of the weapon contractors. Their differential profits are likely to rise—partly from rising sales to the region, but mostly from increased spending at home.

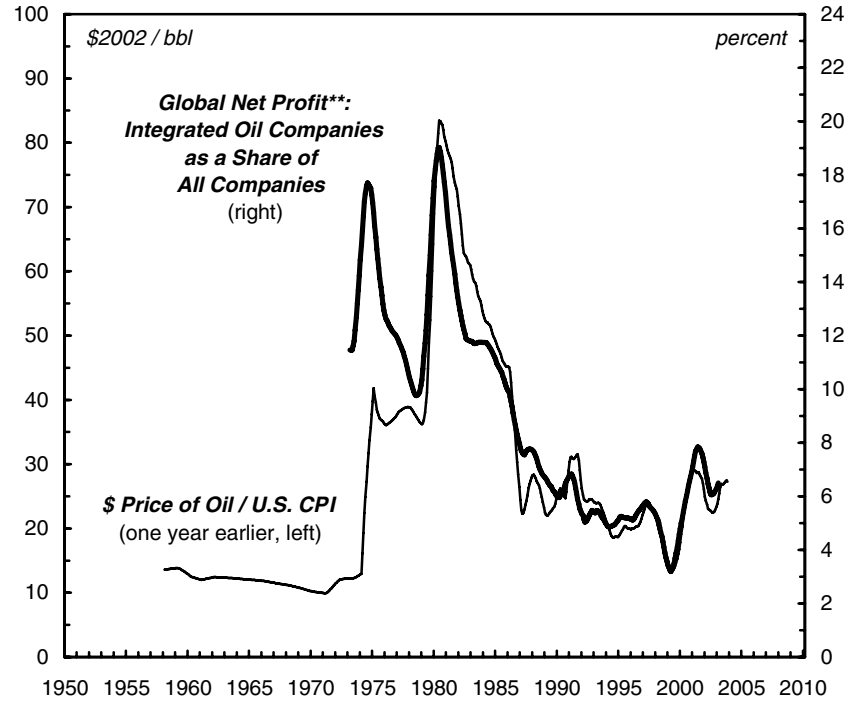
The impact of renewed conflict in the region on oil profits should be equally large—although for a reason different than most people think. The prevailing view, popular among leftwing and rightwing analysts, is that the U.S. invasions of Afghanistan and Iraq are part of a larger strategy whose goal is to gain *direct control* over the region's oil reserves. This view may be true. But controlling the region's reserves will not, in itself, make the oil companies richer.

Individually, each oil company of course is concerned with access to crude reserves. But for the oil companies *as a group*, the 'access issue' is passé. It is rhetoric which belongs to the breadth order of the 1950s and 1960s, a period when oil was in a 'free flow,' when a barrel sold for $2, when royalties were low or non-existent, and when profits depended mostly on production volume—that is, on 'access.' This situation changed fundamentally in the 1970s. Global differential accumulation swung into depth, crisis replaced prosperity, OPEC made the headlines, and the oil business shifted from a 'free flow' to a 'limited flow.' From then on, oil profits came to depend not on output, but on price. During the following three decades, world oil production increased continuously. But the growth in volume was moderate, roughly 1.5 percent a year, and was practically insignificant when compared to the wild swings in prices, which often doubled or halved in a single year.[39]

The consequences for the oil companies of their business shifting from a 'free flow' to a 'limited flow' are illustrated in Figure 11. The thicker line denotes the relative share of integrated oil companies in net corporate profit worldwide. The thinner line measures the 'real' price of oil, derived by dividing the dollar

39. World oil production—including crude oil, shale oil, oil sands and natural gas liquids—rose from 48.1 million barrels a day in 1970, to 74.5 million a day in 2001. The price of crude oil over the same period fluctuated between a low of $2.2 per barrel and a high of $40.5 when measured in current dollars, and between $9.4 and $82.8 when measured in 2002 dollars (production data from British Petroleum Annual; price data from International Monetary Fund Annual).

Figure 11 – The Price of Oil and the Global Distribution of Profit*



* Series are smoothed as 12–month moving averages.

** Net profit is computed by dividing market value by the price/earning ratio. Data are restated to reflect changes in the series constituent companies.

Source: Datastream (series codes: OILNWD for the integrated oil companies; TOTMKWD for world total); WEFA (series codes: L76AA&Z@C001 for the price of crude oil; L64@C111 for the U.S. CPI).

price per barrel by the U.S. CPI, and lagged one year.[40] The correlation between the two series leaves little to the imagination. For the oil companies, differential accumulation was, and still is, a matter of differential price: the higher the relative price of oil, the higher their share of global profit.[41]

[40.] Since reported corporate earnings represent the sum of the past four quarters, the full impact on profit of a change in the price of oil will be felt only after a year.

[41.] The correlation coefficient between the two monthly series measures 0.80 (out of 1) for the period since January 1974, and 0.92 for the period since January 1979.

On the face of it, this relationship seems counterintuitive. For the oil companies, crude oil is the principal input, not output. It is the raw material which they refine into gasoline, diesel, petrochemicals and other derivatives. Consequently, should they not *lose* when crude oil becomes more expensive? The answer is negative. If the price of refined products were fixed, higher crude oil prices would probably mean lower profit. But the price of refined products is not fixed. On the contrary, it tends to move up and down with the price of crude oil, causing profit and cost to move not inversely with each other, but together.[42]

[42.] For the mathematically inclined, assume for simplicity that the oil companies buy all their crude oil from others; that they refine the oil into final products; and that they sell those products for profit. By definition, the companies' dollar profit (Π) is the multiple of their output volume (Q), the dollar cost per unit of output (C) and the decimal profit markup (K), such that:

$$\Pi = K \cdot C \cdot Q$$

Using lower case notations to represent rates of change, we have:

$$\pi \approx k + c + q$$

Suppose now that the price of crude oil goes up, so that $c > 0$. Assuming that the other costs of production remain unchanged, what happens to profit depends on the relationship between c and $(k + q)$. Profit will fall if, and only if, $(k + q) < -c$; in other words, if, and only if, the multiple of the markup and output $(K \cdot Q)$ falls *by more* than the rise in C. Although possible, this outcome is very unlikely for two reasons. First, rising crude prices tend to both 'fire up' the profit expectations of oil companies and galvanize their cooperation. This closer cooperation, tacit or otherwise, usually works to keep profit markups from falling, and often helps them go up. (Technically, there is nothing to prevent oil companies from changing their markups as they see fit. But in the absence of an external 'shock,' such as a hike in the price of crude oil, raising the markup significantly is too blatant an act to contemplate politically, and one which often is difficult to coordinate and maintain.)

Now, since higher costs and higher markups lead to higher prices, one would expect to see consumption—and thererfore output— fall. Oil products were made more expensive, so it is only natural for consumers to use less energy overall, as well as to substitute to alternative, non-oil sources. As it turns out, however, this negative impact usually is very small (in the jargon of economists, oil is 'price-inelastic'). To illustrate, between 1970 and 2001, the annual growth rate of crude oil consumption varied between a low of –3.9 percent in 1980 and a high of 8.4 percent in 1970—an overall range of only 12.3 percent. By comparison, the range of price changes during the same period was 230 percent—prices fell by as much as 53 percent in 1986, and rose by as much as 267 percent in 1974 (computed from British Petroleum Annual). Moreover, there was no clear correla-

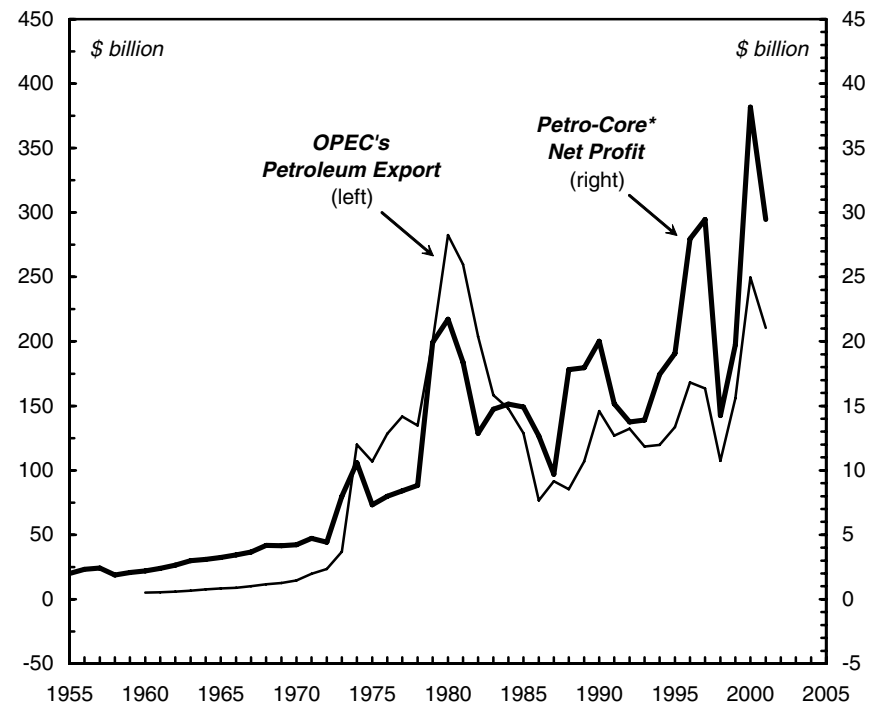
During the early 1980s, crude prices expressed in 2002 dollars exceeded $80 a barrel. For the world, this was the height of the 'energy crisis.' For the oil companies, it was the peak of the 'energy boom': their earnings reached nearly 19 percent of all global corporate profit. Since then, however, the 'real' price of oil tumbled, and so did the profit share of the oil companies. The nadir was reached in 2000, toward the end of Clinton's presidency, when oil profits were reduced to a mere 3 percent of the world's total. The last couple of years show a sign of reversal. With the Bush family again in the White House and the newspeak of 'globalism' giving way to the old rhetoric of 'imperialism,' oil prices have recovered and oil companies have seen their global profit share rising to between 6 and 8 percent. Of course, if this reversal is to continue, the price of oil will have to keep on rising. And for oil to become more expensive, the Middle East must be kept in 'turmoil.'

The position of OPEC on the issue of conflict is inherently schizophrenic. On the one hand, conflict could be a very risky business, particularly when you are part of it. On the other hand, from the narrow viewpoint of *earnings*, the interest of oil producing countries is pretty much the same as that of the oil companies. This convergence is illustrated in Figure 12. The thick line in the chart shows the net profit of the 'Petro-Core,' made up of the world's six leading non government oil companies: British Petroleum (BP-Amoco since 1998), Chevron (Chevron-Texaco since 2000), Exxon (ExxonMobil from 1999), Mobil (till 1998), Royal-Dutch/Shell and Texaco (till 2000) (all changes are due to mergers). The thin line displays the value of OPEC's petroleum exports. The correlation between the two series is both positive and tight (correlation coefficient of 0.83). And the meaning of this correlation is simple enough: Middle East conflict, through its impact on the price of oil, has worked to boost OPEC's income (as well as the income of non-OPEC producers), just as it has raised the profits of the oil companies.

So let us recap again. Dominant capital is now in need of inflation. With mergers and acquisitions in low gear and the world toying with deflation, the prospects are for differential decumulation and possibly debt deflation. For deflation to be averted and for differential accumulation to continue, there needs to be a shift from breadth and disinflation to depth and inflation. This

tion between the two movements, with higher prices often coinciding with higher rather than lower consumption. To sum up, then, higher prices for crude oil ($c > 0$) tend to be associated with stable or even higher markups ($k \geq 0$), as well as indeterminate but very small changes in output ($q \approx 0$). The net impact of higher crude prices on oil company profits therefore is almost always positive.

Figure 12 – OPEC and the Oil Companies



* British Petroleum (BP-Amoco since 1998), Chevron (till 2000), Exxon (ExxonMobil since 1999), Mobil (till 1998), Royal-Dutch/Shell and Texaco (till 2000). Company changes are due to merger.

Source: *OPEC Annual Statistical Bulletin; Fortune.*

shift requires a change in the mindset of 'price makers.' The most effective trigger for such change is a return to 'energy crises' in the Middle East, with sizeable increases in the price of oil leading to higher inflation. Within dominant capital, the groups that stand to benefit the most from this shift are the oil and armament companies. Also likely to gain, at least from the viewpoint of earnings, are oil producing countries in and outside OPEC. The only question is whether or not those who stand to gain from the shift can actually make it happen.

The Coalition

The answer remains to be seen. What does seem clear, though, is that the 'political machinery' necessary to bring this shift is presently in place. As we have described elsewhere at great length, this political machinery first emerged

in the early 1970s in the form a *Weapondollar-Petrodollar Coalition* between the large armament, construction, oil and financial corporations, in conjunction with OPEC and key Western governments. The key feature uniting this coalition was a common interest in some measure of conflict in the Middle East and in high oil prices.

Representatives and owners of key companies within this coalition have grown increasingly intertwined with the hawkish administrations of Richard Nixon, Gerald Ford, Ronald Reagan and George Bush Sr. Even Jimmy Carter, who adopted a more conciliatory approach towards Middle East affairs, did not manage to significantly restrict their leverage.

One result of this 'capital-state symbiosis' was to keep U.S. energy policy conveniently fuzzy. 'For many decades now,' complained the authors of the Baker Report, 'the United States has been without an energy policy' (Morse and Jaffe 2001: 4). Indeed. According to Daniel Yergin's analysis of over one thousand State Department cables and papers obtained under the Freedom of Information Act, between 1974 and 1981 the U.S. government in fact objected to higher oil prices, but it didn't want to see those prices lowered either.... (Yergin 1991: 84, 643).

Officially, of course, the government of the United States was 'fundamentally, irrevocably committed' to maintaining the free flow of oil, and 'the interest in the United States is bound to be cheap energy prices.' That, at least, was how Vice President George Bush Sr. put it 1986 (*New York Times*, 7 April 1986). Interestingly, though, Bush made this declaration during his emergency trip to Saudi Arabia, a trip whose explicit purpose was to persuade the kingdom to *cut* output in order to *raise* the price of oil! The 'free market' was all good and dandy, but there was a limit. As Bush articulated it to the Saudis: 'There is some point at which the national security interests of the United States say, "Hey, we must have a strong, viable domestic interest"' (*ibid.*).

Unlike with oil, the policy position on armament seemed unambiguous. The various U.S. administrations, along with the Soviet Union and countless other countries, did their best to arm the Middle East to the teeth. Israel, Saudi Arabia, Iraq, Egypt, Iran under the Shah, Iran under Khomeini, Kuwait, Jordan, the Gulf Emirates—all received massive weapon shipments. These shipments, of course, were all made in the interest of 'stabilization,' as Secretary of State William Rogers put it (cited in Engler 1977: 242). 'The balance of power,' explained the quintessential go-between, Henry Kissinger, 'is a kind of policeman, whose responsibility is to prevent peaceful countries from feeling impotent and aggressors from becoming reckless' (Kissinger 1981: 81).

Unfortunately, or fortunately, depending on the viewpoint, the 'balance of power' provided little stability to the region. In fact, it seems safe to conclude

it has done the exact opposite. Since 1967, the region has had numerous major conflicts, all fought with imported weapons, and all connected directly or indirectly to oil.

12. 'energy conflicts'

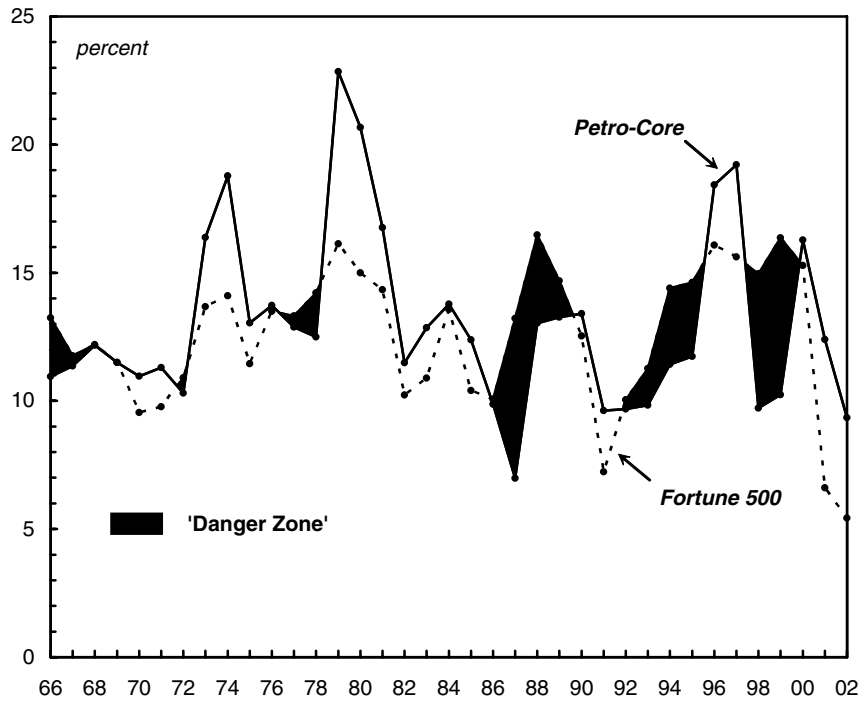
The connection between oil and conflict in the Middle East is hardly a novelty. Some conflicts—for instance, the 1990–1 war between Iraq and the U.S.-led coalition—have been attributed partly to a struggle over the control of crude reserves, whereas others—specifically the Arab-Israeli wars of 1967 and 1973 and the Iran-Iraq conflict of 1980–8—were seen as having aggravated ongoing energy crises. Most of those studying the subject have concentrated on the link between conflict on the one hand and oil prices and exports on the other. Few if any, however, have paid attention to the more subtle relationship between conflict and oil *profits*.

Figure 13 and Figure 14 provide summary statistics on the relative financial performance of the 'Petro-Core' referred to earlier. Figure 13 displays two measures of return on equity—one for the Petro-Core, the other for the Fortune 500 group of companies. Comparison of these two measures gives an indication for the relative performance of the Petro-Core. When the Petro-Core's rate of return 'beats' the Fortune 500 average, it accumulates differentially. When it falls short of that average, it decumulates differentially. In the figure, these latter instances are darkened in black, and are labelled 'danger zones' for a reason which we shall explain shortly.

The same information is presented somewhat differently in Figure 14. Here we measure the rate of differential accumulation, first, by taking for each year the difference between the rate of return of the Petro-Core and the average rate of return of the Fortune 500, and then expressing this difference as a percent of the Fortune 500's (in order to 'standardize' the result). Here, too, instances of differential decumulation by the Petro-Core are darkened in black and labelled as 'danger zones.'

The reason for using the term 'danger zone' has to do with the 11 'explosion' symbols in Figure 14. Each of these symbols represents the breakout of a major Middle East conflict—the 1967 Arab-Israeli War, the 1973 Arab-Israeli War, the 1979 Islamic Revolution, the 1979 Soviet Invasion of Afghanistan, the 1979 Israeli invasion of Lebanon, the onset of the 1980–8 Iran-Iraq War, the 1982 Israeli invasion of Lebanon, the 1990–1 Gulf War, the 2000 Palestinian *Intifada*, the 2001 U.S. invasion of Afghanistan and, finally, the 2002–3 second Gulf War. As it turns out, this string of conflicts has been intimately connected to the differential accumulation of the oil companies, and in more than one way.

Figure 13 – Return on Equity: The Petro-Core* versus the Fortune 500**



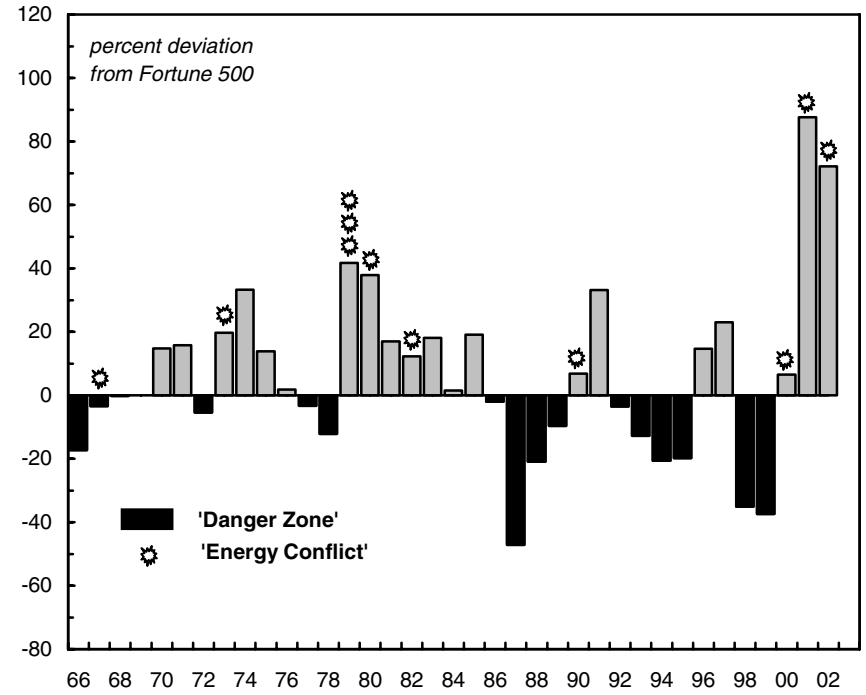
* British Petroleum (BP-Amoco since 1998), Chevron (till 2000), Exxon (ExxonMobil since 1999), Mobil (till 1998), Royal-Dutch/Shell and Texaco (till 2000). Company changes are due to merger.

** Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing or mining). From 1994 onward, the list includes all corporations. For 1992–3, data for Fortune 500 companies are reported without SFAS 106 special charges.

Source: *Fortune*; Standard & Poor's *Compustat*.

First, since the late 1960s, *all* major Middle-East conflicts were followed by a period during which the Petro-Core beat the Fortune 500 average. In this sense, and whatever their ultimate 'cause,' these were all *'energy conflicts.'* Now, that finding, although striking, should not surprise the reader: as we have already seen, differential oil profits are intimately correlated with the relative, or 'real' price of oil; the 'real' price of oil in turn is highly responsive to Middle East 'risks,' real or imaginary; these 'risks' tend to jump in preparation for and during armed conflict; and as the 'risks' mount, they bring higher 'real' oil prices and

Figure 14 – The Petro-Core's Differential Accumulation* and Middle East 'Energy Conficts'**



* Differential accumulation is defined as the relative deviation of the return on equity of the Petro-Core from the return on equity of the Fortune 500. The Petro-Core comprises British Petroleum (BP-Amoco since 1998), Chevron (till 2000), Exxon (ExxonMobil since 1999), Mobil (till 1998), Royal-Dutch/Shell and Texaco (till 2000). Company changes are due to merger. Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing or mining). From 1994 onward, the list includes all corporations. For 1992–3, data for Fortune 500 companies are reported without SFAS 106 special charges.

** The specific 'Energy Conflicts' are listed in the text.

Source: *Fortune*; Standard & Poor's *Compustat*.

therefore differential accumulation for the oil companies. The important thing to note here, though, is that 'energy conflicts' have led not to higher oil profits as such, but to higher *differential* oil profits. As Figure 13 shows, in 1969–70, 1975, 1980–2, 1985, 1991 and 2001–2, the rate of return on equity of the 'Petro-Core' actually fell; but in all cases it fell *more slowly* than the average rate of return of the Fortune 500, enabling the 'Petro-Core' to comfortably 'beat the average.'

A second remarkable fact is that, with the exception of 1996–7, the Petro-Core *always* 'needed' a conflict to pull itself of a the 'danger zone.'[43] This fact should already be highly disturbing. It is one thing for war to help the oil companies beat the average. It is another matter when the oil companies can beat the average *only* through war.

But the most important fact is that *all* of the conflicts indicated in the chart were preceded by a period during which the Petro-Core suffered differential decumulation.[44] The first fact, although striking, may be dismissed as coincidence. The second fact is a bit more disconcerting, yet still in the realm of remote possibilities. But what should we make of the third fact? How could it be that differential *decumulation* by a few large oil companies *always* 'triggers' wars in the Middle East? Or is this a fluke as well?

Perhaps it is. But in passing judgment on this matter, it is important to note that most of these conflicts were endorsed, and sometimes openly supported, by various U.S. governments, and that these governments were never at arm's length from the Weapondollar-Petrodollar Coalition (Cf. Bichler and Nitzan 1996; Nitzan and Bichler 2002: CH. 5). Thus, in the months leading to the 1967 Israeli-Arab War, the United States actively supported Israel's plan to 'break Nasser's bones asunder.' In 1973, Nixon and Kissinger had been warned by the oil companies and Saudi Arabia of the pending attack on Israel, but chose to do nothing about it, not even notify the Israelis. In 1979, President Carter, under the advice of Kissinger, contributed to the post-Revolution turmoil in Iran by offering asylum to the Shah and freezing Iranian assets in the United States. The United States gave the green light to both of Israel's invasions of Lebanon—the first in 1979 and the second in 1982. The U.S. government financed and supplied the Mujahedin after the Soviet invaded Afghanistan in 1979. The U.S. government encouraged Iraq to attack Iran in 1980, and then supplied armaments to both sides in order to prolong the conflict. The 1991 Iraqi invasion of Kuwait was a classic 'sting' operation. The U.S. gave Saddam Hussein reason to believe that Washington would do nothing if he invaded Kuwait, only to reverse its stance the moment he attacked. The Administration of George Bush Jr. supported Ariel Sharon from the moment he walked on the Temple Mount

43. Although there was no 'official' conflict in 1996–7, there was plenty of violence, including an Iraqi invasion of Kurdish areas and U.S. cruise missile attacks.

44. In the late 1970s and early 1980s, and then in the early 2000s, differential decumulation was sometimes followed by a string of conflicts stretching over several years, with the result being a longer period between the initial spell of differential decumulation and some of the subsequent crises.

in 2000 and throughout the resulting *Intifada*. Finally, the background to the September 11 attacks is still engulfed in mystery if not secrecy; but the enthusiasm of Bush Jr. to use these attacks as a pretext for invading Afghanistan and Iraq is hardly in doubt.

Of course, these observations themselves do not mean that Middle East wars were 'premeditated' in the boardrooms of the Weapondollar-Petrodollar Coalition and that the U.S. government simply 'followed orders,' triggering conflict whenever it suited the Coalition. It is almost a cliché to say that conflict and war are never mono-causal. They always occur within a highly complex historical context, and that context can never be reduced to a 'functional' relationship between several 'variables.' But in the case of the Middle East, the context of conflict cannot be comprehended solely from the narrow perspective of the warring factions; it cannot be understood without reference to its own continuities and apparent 'regularities'; and it cannot be analyzed separately from broader world developments.

Our own view is that Middle East conflicts were integral to the power processes of global accumulation. During the 1970s and 1980s, these conflicts helped trigger and sustain a global depth regime of stagflation—which in turn contributed to the differential accumulation of dominant capital in general, and of the Weapondollar-Petrodollar Coalition in particular. In the process, this coalition had become increasingly fused with its 'parent' governments on the one hand and its OPEC 'hosts' on the other, leading to a growing 'capital-state symbiosis' between them.

Whether or not there was 'conspiracy' here, and what the precise nature of such a 'conspiracy' was, remains an open question. Unfortunately, these types of issues are not the usual staple of primetime television. Occasionally, however, the truth does come to light, albeit with a little delay. The 1971 publication by Daniel Ellsberg of the *Pentagon Papers*, for example, revealed the clandestine story behind the Vietnam War (Chomsky, Zinn, and United States Department of Defense 1971). Similarly, the 1975 declassification of the 1950 National Security Council Memorandum 68 (NSC 68) showed that the military buildup of the Cold War was explicitly designed, at least partly, as a 'Keynesian stimulant' (National Security Council 1950). Perhaps in due course someone will publish the secret 'Exxon Papers' or a declassified 'NSC Report on Energy and War in the Middle East,' thereby opening a window into the backroom story of Energy Conflicts in the region.

One way or another, it is clear that during the 1970s and early 1980s the general context was highly favorable to conflict. The differential interests of the various groups described above fit nicely with the realist rhetoric of the 'Cold War,' 'spheres of influence,' the 'national interest' and 'access' to raw materials.

The net result of these converging interests, institutions and organizations was to make conflict look more 'natural,' which in turn strengthened the hand of those who benefited from such conflict and weakened those who opposed it. In short, it was 'open season.' War was less likely to be prevented, more likely to erupt (sometimes with active encouragement), and less likely to be stopped once under way.

13. BREADTH AND THE RISE OF 'NEOLIBERALISM'

The importance of differential accumulation regimes for understanding Middle East conflicts is all the more evident when considering the relative 'pause' in these conflicts during the late 1980s and 1990s and the way this pause was connected with the shift from depth to breadth. Since the late 1980s, the Weapondollar-Petrodollar Coalition was running into increasing difficulties. The profit share of oil companies tumbled to unprecedented lows (Figure 11). Differential decumulation by the Petro-Core also proved far more difficult to resolve (Figure 13 and Figure 14). During the earlier period of the 1970s and early 1980s, drops in its differential performance were short. Every drop was quickly followed by conflict, which in turn allowed the oil companies again to beat the average. By contrast, from the mid 1980s onward, wars became fewer and farther between, and their effect on differential performance usually was disappointing. Worse still, in 1991, George Bush Sr., a Weapondollar-Petrodollar loyalist who had just finished orchestrating a major international war, was more or less forced to announce the dawn of a 'New World Order' of peace. His successor, Bill Clinton, was already a declared 'peacenik' who moved swiftly toward resolving the Arab-Israeli conflict. World military budgets during the 1990s fell sharply, arms exports went into a tailspin and the large armament contractors were reduced to a mere shadow of their past glory. 'War profit' and conflict were evidently out. Everyone was talking about 'peace dividend,' 'globalization,' 'emerging markets' and the 'end of history.'

The change certainly was influenced by the collapse of the Soviet Union and the disintegration of communism. But that disintegration itself was intimately connected to the expanding frontiers of differential accumulation. The last 'envelope,' which till then had separated the First World from the Second and Third, was finally broken, triggering a swift shift from depth to breadth. With communism gone, developing countries were more or less compelled to become 'emerging markets' open to Western investment. For dominant capital, corporate merger had finally gone global. Civilian high-tech was promoted as the new panacea, investors' optimism was relentlessly hyped up, and market indices and equity valuation were sent into the stratosphere. The winds of 'neoliberalism,' 'deregulation' and 'openness' began blowing stronger and stronger.

By the early 1990s, dominant capital *as a whole* shifted from relying on depth through stagflation to emphasizing breadth through corporate amalgamation. But the shift also involved a realignment *within* dominant capital. The Weapondollar-Petrodollar Coalition that had led the earlier depth regime was now challenged by a new 'Technodollar-Mergerdollar Coalition' geared toward civilian high-tech, global expansion and corporate mergers.

Although there is some overlap between the two coalitions, their characteristics are fairly distinct. The top defense contractors are mostly high-tech companies, but they rely largely on military orders. By contrast, the large high-tech companies of the Technodollar-Mergerdollar Coalition sell mostly to the civilian market.[45] Similarly, while both coalitions went through massive corporate consolidation during the 1990s, in the former case the process was largely defensive, whereas in the latter it was highly aggressive.

The reversal of fortune of these coalitions is evident in Figure 15. The chart shows the net profit of two corporate clusters, both expressed as a percent of total world profit: integrated oil and defense companies which proxy the Weapondollar-Petrodollar Coalition, and information technology hardware, telecom hardware and computer software and services, which together proxy the new Technodollar-Mergerdollar Coalition.

As the data indicate, the Weapondollar-Petrodollar Coalition reigned supreme till the early 1980s. At the peak of its power, in 1981, it scooped over 20 percent of the global profit pie. Then came a long decline, with the slack picked up, particularly since the early 1990s, by the Technodollar-Mergerdollar Coalition. Toward the end of the 2000s, the former's share was reduced to nearly 3 percent, whereas the latter's soared to 14 percent.

For the new coalition, high energy prices were a mortal threat. More expensive oil would have spoiled business confidence and growth in 'emerging markets,' upset capital mobility and merger prospects and interfered with

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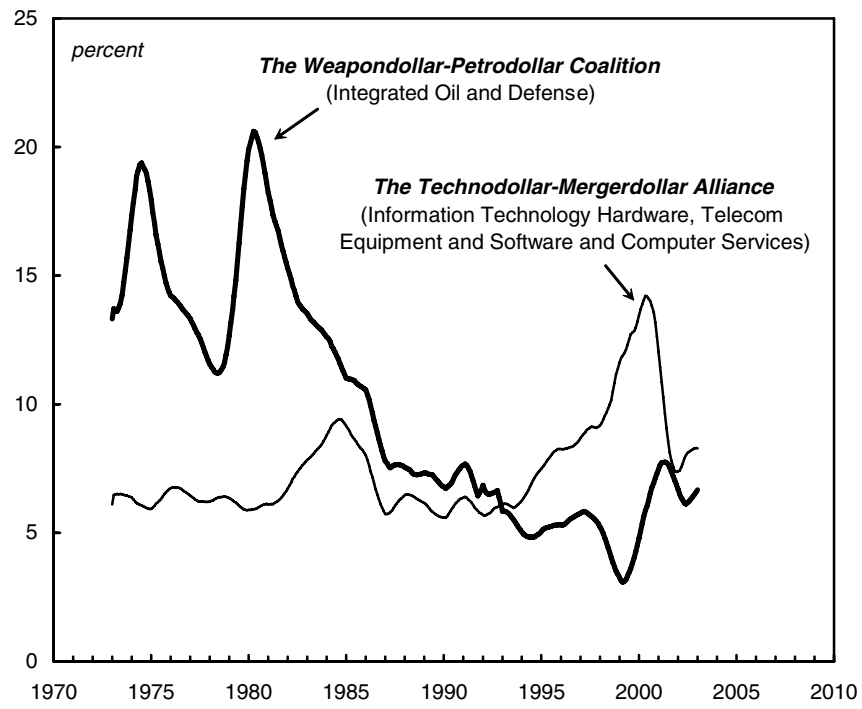
45. Global data on the 'military dependency' of large companies are difficult to collate, but the situation in the United States, which is probably indicative of the broader picture, seems fairly clear. Between 1966 and 1991, the 16 leading U.S. defense contractors typically got 20 to 40 percent of their revenues from prime contract awards with the Department of Defense (Nitzan and Bichler 1995: 459–63). This ratio has surely increased with recent mergers in the sector. In 2001, the comparable figure for the 30 leading civilian high-tech companies based in the United States was a mere 0.7 percent (computed from the Fortune 500 directory and from U.S. Department of Defense Annual). The latter companies often act as subcontractors to the leading defense firms, but the magnitudes involved are small relative to their total sales and do not change the overall picture.

Figure 15 – Shares of Global Net Corporate Profit*



* Net profit is computed by dividing market value by the price/earning ratio. Series denote monthly data smoothed as 12–month moving averages.

Source: Datastream (series codes TOTMKWD for world total; OILINWD for integrated oil; DEFENWD for defense; INFOHWD for information technology hardware; TELEQWD for telecom equipment; SFTCSWD for software and computer services).

the hyping up of the stock market. And since breadth accumulation benefited dominant capital as a whole, both rhetoric and policy tilted toward supporting the new regime. Experts began to sing the praises of a 'new economy' of technical progress and inflationless growth. Government deficits were made smaller and economies were deregulated. Borders were opened and military spending was reduced. The Middle East was put on a fast track toward becoming the next 'emerging market,' with peace deals popping up all over and frequent conferences recounting the wonders of regional cooperation and development. Even Israel's dominant capital, which had made its greatest differential fortunes during the depth regime of conflict and stagflation, bought into the dream of a 'New Middle East' with Israel as its 'Silicon Waddi.' Breadth accumulation was clearly the way to go.

14. The current crossroads

Regrouping

The Weapondollar-Petrodollar Coalition did not die, however. Far from it. During the 1990s, it was busy regrouping its organizations, realigning its politics and reworking its ideology. The first task was amalgamation. By the end of the decade, merger had fused many of the Petro-Core giants, formerly known as the 'Seven Sisters,' into even larger entities. Similarly with the armament companies. Clinton's government and the EU encouraged them to bundle up, and within several years there emerged a new leading group of companies, the 'Seven Angels of Armageddon,' all intricately tied through joint development projects.[46]

In the meantime, the policy hawks were busy drafting future plans. In 1996, The Institute for Advanced Strategic and Political Studies in Jerusalem tabled a report entitled 'A Clean Break: A New Strategy for Securing the Realm' (Perle et al. 1996). The study, written under the auspices of the Netanyahu government, called for a drastic change in Israeli policy. The 'New Middle East' had been a complete failure, the paper argued. Comprehensive peace was a mirage and paying for it with land was suicidal. Instead, Israel should strive for a 'balance of power.' Forging an alliance with Turkey and Jordan, Israel should contain, destabilize and roll back Syria, its strongest foe. If needed, Israel should not shy from openly attacking Syria, militarily, both in Lebanon and on its own soil. Furthermore, 'Since Iraq's future could affect the strategic balance in the Middle East profoundly,' the effort to roll back Syria 'can focus on removing Saddam Hussein from power in Iraq—an important Israeli strategic objective in its own right—as a means of foiling Syria's regional ambitions.'

Interestingly, the team that wrote the report was entirely American, and many of its members would soon become key figures in the government of George Bush Jr. The leader of the team was Richard Perle, former assistant

46. By the late 1990s, the world's leading oil companies were Exxon-Mobil (with 1999 net profits of $7.9 billion), Royal-Dutch Shell ($8.9 billion), BP-Amoco ($5 billion), Total Fina Elf ($3.9 billion), Chevron-Texaco ($3.3 billion) and ENI ($3.1) billion. The 'Seven Angels of Armageddon,' a nickname suggested to us by Gibin Hong, consisted of Lockheed-Martin (with 1999 defense sales of $18 billion), Boeing ($16 billion), BAE Systems ($15 billion), Raytheon ($15 billion), General Dynamics ($9 billion), EADS ($6 billion) and Northrop Grumman ($6 billion) (figures from Nitzan and Bichler 2002: Table 5.4, p. 269).

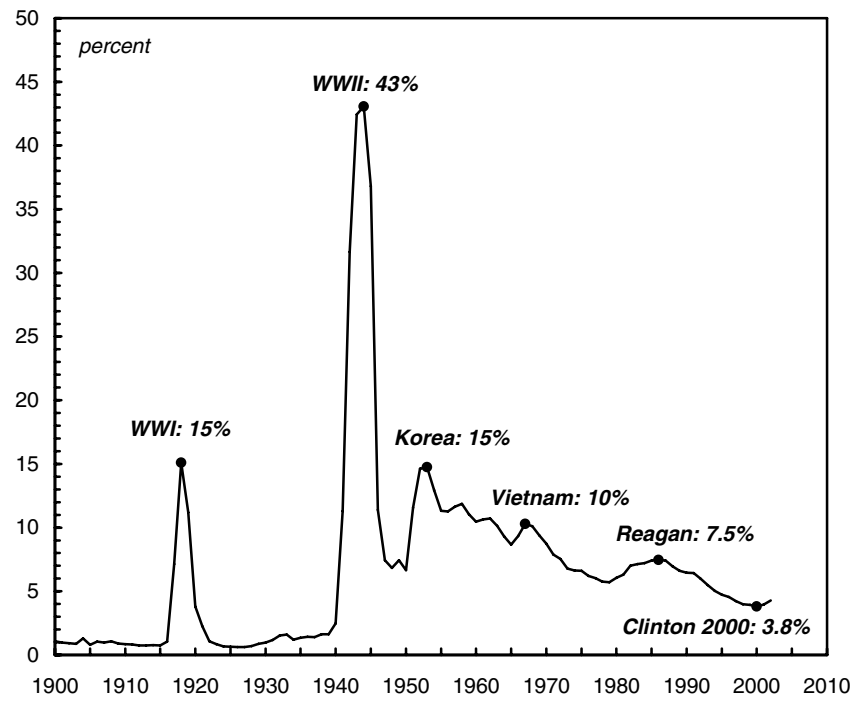
secretary of defense for international security policy and future chairman of the Pentagon's Defense Policy Board under Bush. Other members included lawyer Douglas Feith, who became Bush's under secretary of policy at the Pentagon; Meyrav Wurmser and her husband, David Wurmser, who became special assistant to John Bolton, Bush's under secretary for arms control and international security at the State Department; and James Colbert of the neo-conservative Jewish Institute for National Security Affairs in Washington, whose advisory board included future vice-president Dick Cheney, John Bolton and Douglas Feith (Whitaker 2002).

In 1998, the chorus of 'realist' voices grew louder and the focus on Saddam Hussein sharper. A group of 42 prominent public figures, led by Donald Rumsfeld, wrote an open letter to President Clinton, calling for a 'comprehensive political and military strategy for bringing down Saddam and his regime' (Rumsfeld 1998). In a few years, many of the letter's signatories would assume key positions in the Bush government, ready to make good on their recommendations.

The broad blueprint for how to carry out these recommendations was meticulously laid out in a 90-page report, 'Rebuilding America's Defenses,' (Donnelly 2000). The report was published by the Project for the New American Century (PNAC), whose founders included future vice-president Dick Cheney, future defense secretary Donald Rumsfeld, future deputy defense secretary Paul Wolfowitz, Cheney's future chief of staff Lewis Libby, and Bush's future ambassador to Afghanistan Zalmay Khalilzad. The principal means of promoting 'American global leadership,' argued the report, was higher military spending. '[T]he extended paying of the "peace dividend" and the creation of today's federal budget surplus, the product of increased tax revenues and reduced defense spending—has [sic] created a severe "defense deficit," totaling tens of billions of dollars annually' (Donnelly 2000: 69). Indeed, according to the report, the postwar decline in military spending as a share of GDP, illustrated in Figure 16, was pushing America toward a moment of truth. The trend had to be reversed before it was too late. To this effect, America needed a major 'military transformation'—although such transformation, the report observed, was 'likely to be a long one, absent some catastrophic and catalyzing event—like a new Pearl Harbor' (pp. 50–51).

In order to effect this 'transformation,' whether long or short, the Weapon-dollar-Petrodollar Coalition first had to reclaim the White House. This was an important task, and the efforts put into it were commensurate with the stakes. Massive financial support, legal pressures, electoral maneuvers, deceit and outright forgery were all brought to bear. And the strategy worked. In January 2001, the Coalition had George Bush Jr. safely installed in the Oval Office.

Figure 16 – U.S. Military Spending as a Share of GDP



Source: Nils Petter Gleditsch, *The Peace Dividend* (Amsterdam and New York: Elsevier, 1996); U.S. Department of Commerce through WEFA (series codes: GDP for GDP; GFML for military spending).

The End of Breadth

In retrospect, then, all seemed ready for a 'new Pearl Harbor': the oil and armament sectors had been centralized, their corporate members all eager for higher oil prices and larger military budgets; an ultra-hawkish ideology had been articulated and aggressively peddled to policy makers, intellectuals and the masses; and the new U.S. Administration seemed prepared to go to war on a moment's notice. But these conditions alone, although necessary, were not sufficient. It was also essential to have dominant capital on board, and that condition, too, was fulfilled in 2001. With mergers having collapsed and the drop in stagflation apparently reversed, the pendulum of differential accumulation has began to swing (Figure 7). The collective mindset of dominant capital has finally started to shift from breadth to depth.

In our view, without this change in the outlook of dominant capital, September 11 probably would *not* have become America's 'new Pearl Harbor.' Had the attacks on the Twin Towers and the Pentagon occurred not in 2001, but in the mid 1990s, at a time when the stock market boom was still in full swing, when 'emerging markets' were still red hot, and when high-tech mergers were reshaping the corporate landscape, it is doubtful that a U.S. administration—even one headed by George Bush Jr.—would have been able to substitute 'infinite war' for 'neoliberal globalization.' In this sense, the 2001 timing of the attacks was 'perfect' (if that is the proper word). The attacks came after the stock market had been punctured, after the merger boom had collapsed, after the neoliberal rhetoric had begun to backfire in 'emerging markets,' and after deflation had emerged as a threat. When the Twin Towers came down, the Technodollar-Mergerdollar Coalition was already in tatters, its profits melting, its neoliberal vision tarnished. Dominant capital was finally ripe for a 'regime change' in the nature of differential accumulation, ready to accept the resurrected Weapondollar-Petrodollar Coalition as its new locomotive, ready to shift from 'peace dividends' back to 'war profits.'

The New Wars

It was against this background that George Bush Jr., on the night of September 11, could confidently dictate to his diary: 'The Pearl Harbor of the twenty-first century took place today; We think it's Osama bin Laden.... We cannot allow a terrorist thug to hold us hostage. My hope is that this will provide an opportunity for us to rally the world against terrorism' (Balz and Woodward 2002). The next day, secretary of defense Donald Rumsfeld suggested that the United States use the opportunity to go after Iraq. The suggestion had many supporters, but, in the end, on the counter advice of secretary of state Colin Powell, it was decided to cater to 'American public opinion' and, instead, begin with Al Qaeda in Afghanistan (Woodward and Balz 2002).

Officially, the new wars are against terrorism. Unofficially, they are about securing cheap oil. And, so far, they have 'failed' on both counts. Terrorism remains unabated, and oil, instead of becoming cheaper, has grown more expensive. And, yet, to the surprise of many, despite this double failure, the 'business community' remains quiet: 'why is Wall Street silent on the war?' asked Bloomberg commentator Michael Lewis (2003). Obviously, the reason is not lack of interest. If anything, the new wars are probably the most 'commodified' in history, with every move and development on the ground immediately reverberating thought the entire grid of financial markets. Furthermore, the few commentators who do make their opinions known show that dominant capital is well aware of the issues at hand. Thus, George Soros (2003) openly blamed Bush for

his 'inflated sense of supremacy,' warning that 'war on terrorism cannot be the guiding principle of U.S. foreign policy.' The dangers inherent in such policy were explained by Bill Gross of PIMCO, one of the world's largest bond management companies: 'Investors must know that perpetual containment [of terrorism] entails costs—not just monetary but those involving potential policy reversals that have formed the backbone of America's economic hegemony for nearly seven decades.' Free trade, open capital markets and a strong dollar now were all at risk. 'Because of 9/11 and our necessity to fight a new kind of war,' says Gross, 'America is losing its peace dividend at a time when—because of high debt, over consumption, and reflective trade deficit—we cannot afford to' (Gross 2003). Clearly, then, dominant capital understands full well that the new wars could mark the end of neoliberalism, at least for the time being.

So why the silence? According to Michael Lewis, the reason is fear. The 'fear of saying the wrong thing,' which, in his opinion reveals the 'impotence of the putatively powerful.' And perhaps he is right. But there is another possibility, the one argued in this paper. The tentative reversal shown in Figure 7—the fall of the amalgamation index and the coinciding upturn of the stagflation index—suggests that the pendulum of differential accumulation may have begun swinging from breadth to depth. In our view, dominant capital understands that the new wars could seriously undermine neoliberal globalization. But unlike diehard 'peaceniks' such as George Soros and Bill Gross, most of its members feel that the new trajectory of conflict is presently better for accumulation, and therefore say little and do even less. In the current historical conjunction, this inaction allows the new wars to continue and the pendulum to swing from breadth to depth.

And yet this new trajectory remains precarious. The Weapondollar-Petrodollar Coalition, which once more occupies the driver's seat within dominant capital, needs an atmosphere of permanent threat. Military spending has just begun recovering from its abyss (Figure 16). These expenditures could continue rising—but only if the threats they are supposed to answer can be 'demonstrated' as significant and credible. And in a unipolar world, without an opposing superpower, those threats could only be 'demonstrated' through *open and continued conflict*.

From this perspective, the occupation of Afghanistan and Iraq provided a good start, with plenty of media coverage and no end in sight. But unfortunately for the NeoCons and the armament companies, so far the campaigns have proven far too 'efficient.' Their combined cost for 2002–3 is estimated around $100–120 billion. Spread over two years, this sum is equivalent roughly to 0.5 percent of U.S. GDP. A longer occupation of Iraq, including reconstruction and interest expenses, would cost much more—$418 billion over ten years

according to a 'worst-case scenario' published by the House Budget Committee of the Democratic Party (Spratt 2003). But, then, even this inflated sum would represent a mere 0.3 percent of GDP. As illustrated in Figure 16, these ratios remain far smaller than the 'requirements' of past conflicts. And the Pentagon, aware of these limitations, projects military spending over the next five years to rise by only 4.1 percent annually, roughly in line with GDP. Of course, the situation would change dramatically if there were new conflicts in the pipeline, which perhaps explains the endless hype about the Axis of Evil and the need to 'spread democracy.'

The outlook for the oil companies is similar. For them, too, the war in Iraq was won way too easily. As these lines are being written (early 2003), the price of crude oil hovers at around $25 to $32 per barrel—higher than before the war, but still far below previous records (Figure 11). Unless conflict resumes—either through new campaigns or through more intense skirmishes with 'terrorists' and 'fundamentalists'—the likelihood is for oil prices to fall, and for the oil companies to again suffer differential decumulation. And so, here too the Axis of Evil has a role to play—although as far as the oil companies are concerned, that 'role' should not deviate too far from the oil regions.

Finally, so far the new wars and rising oil prices have managed to keep the world from sliding into deflation (Figure 10). But the danger remains. And it is on this issue that the fate of the Bush Administration, the Weapondollar-Petrodollar Coalition, and the nature of differential accumulation more broadly, all hinge. Many big capitalists, whose instincts remain Keynesian, believe that the new wars will be 'expansionary' and that expansion is inflationary. 'Keynesian theory might be old,' explain the analysts of *Stratfor Forecasting* to their clients, 'but it does teach us a basic truth, which is that the cure for deflation is economic stimulation through government spending.... So anyone who was concerned about deflation should be relieved that the Bush administration has adopted Keynes' (Anonymous 2003). Of course, since inflation tends to appear as stagflation, the Keynesian hopefuls may well be puzzled to see prices start rising in the midst of stagnation. But as long as inflation does rise and pricing power is restored, they will be happy to keep 'silent on the war.' However, if the new wars fail to deliver—because the conflicts are not sufficiently 'intense,' because the hostilities do not create enough 'scarcity' in the oil market, or because inflation does not 'respond' to higher oil prices—the opposition from within dominant capital will likely become much more vocal.

And, in this sense, perhaps little has changed. 'It is a sad world indeed,' commented Michal Kalecki at the height of the Vietnam War, 'where the fate of all mankind depends upon the fight between two competing groups within American big business. This, however, is not quite new: many far-reaching upheavals in human history started from a cleavage at the top of the ruling class' (Kalecki 1967: 114).

Update (June 2004)

Since this paper was submitted for publication in June 2003, the U.S. 'victory' in Iraq has proven illusive and the 'war on terror' rather difficult to win. Guerrilla warfare, terrorist attacks, counterattacks and reprisals have intensified in Iraq and elsewhere in the Middle East. The price of crude oil has risen further, and it currently hovers around $40 per barrel. In parallel, the 'risk' of deflation seems to have subsided. Despite the presence of ample idle productive capacity, inflation has picked up and the Federal Reserve Board recently announced it is ready to step on the monetary breaks should the need arise. For the first time since the 1980s, analysts have began contemplating the prospects of renewed stagflation. Increasingly, this new reality seems obvious. Indeed, many experts, who until only a year ago dismissed this new reality as 'nonsense,' now know to tell us that they have 'anticipated it all along.'

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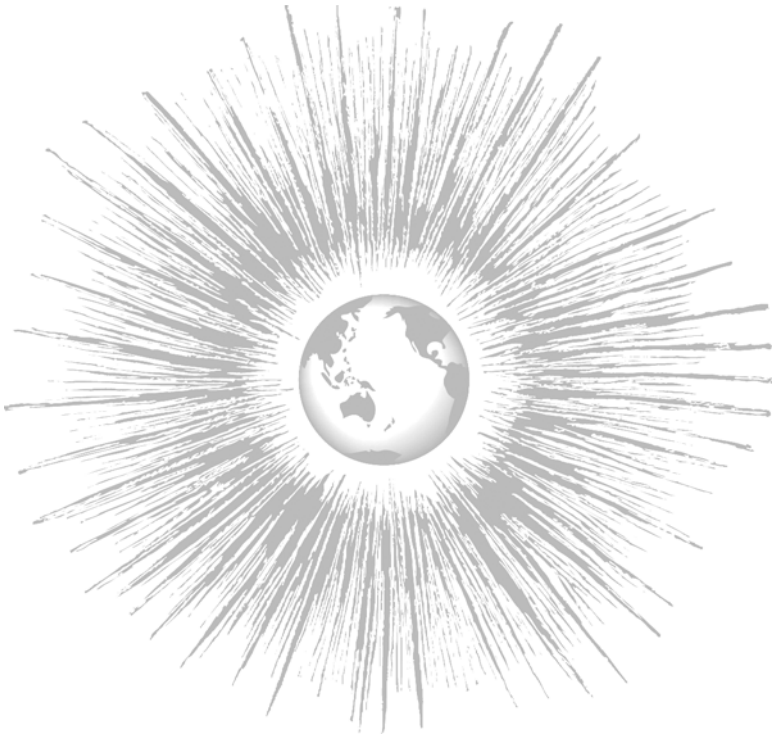

ABSTRACT:

Japan's trajectory under globalization is critically reviewed using the world-system perspective and the methodology of historical sociology. The Japanese miracle in the post-war period was a result of interplay between world-systemic opportunities and internal and regional institutional transformation. Japanese success invited US policy changes, ending the growth regime of accumulation in which state-led national economic development was pursued with distributional concessions given to workers. It is argued that misguided policies based on incorrect economic theories under the strong yen, pushed by the US since 1985, prepared a bubble that then burst. The institutions that had provided the Japanese miracle became the source of problems as Japan entered the debacle period in the 1990s. The Japanese debacle was part of the phenomenon of a 'prosperous US and the debacle of the rest.' This development was a result of the change in the regime of accumulation from a growth regime to a distribution regime where the rentier class took control of distribution and the project of national economic development was replaced by the monopolistic competition of global corporations. For Japan, both traditionalism and neo-liberalism are dysfunctional. In the short run, Japan as a society needs to focus on survival and the maintenance of people's living standards under the new rules of the accumulation game imposed by the US. In the medium run, Japan needs to challenge US dollar hegemony ushered in by the new rules. In the long run, the Japanese need to examine whether they should keep engaging in the game of capitalist accumulation.

Japan and the Changing Regime of Accumulation: A World-System Study of Japan's Trajectory From Miracle to Debacle*

Satoshi Ikeda

INTRODUCTION

This paper attempts a critical review of Japan's trajectory under globalization from the perspective of world-system studies. The exercise here involves placing Japan in the larger context of the world economy and Japanese and world economic transformation in a fifty or one-hundred year timeframe. By placing Japan in a larger context, it is possible to incorporate the actions taken by the non-Japanese agencies as the part of explanation of Japanese experience from miracle to debacle and to examine if such experience was shared by other countries in the world. The world-systemic transformation in the 1980s and 1990s, usually referred to as globalization, will be examined as a process initiated by the US government and corporations. After characterizing the changes in the regime of accumulation under globalization, the paper examines possible Japanese strategies in the short, medium, and long run. By using the world-system perspective, the scope of analysis is broadened beyond that of the existing short-term perspective whose unit of analysis is national the economy. A new interpretation

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of Japanese experience is expected to raise different issues and questions so that we can challenge the conceptual/theoretical debacle that appears to be plaguing Japanese thinking.

The paper is organized as follows. The first section attempts a brief overview of the current literature and a critique of the framework and methodology of the existing literature. In the second section Japan's transition from miracle to debacle is examined using macroeconomic data. The story of Japan's miracle will be told as the result of the interplay between world-systemic opportunity and internal institutional transformation, and the story of debacle will be told as the interplay of actions taken by the agencies involved, focusing on how the intended and unintended consequences of their actions caused institutional deadlock. The third section examines the income trends in other parts of the world and identifies the characteristics of world-systemic changes in the last quarter of the twentieth century under US-led globalization. Japan's experience will therefore be placed in a larger and longer transformation of the world-system, including the change in the regime of accumulation. After Japan's debacle is placed in the world-systemic context, the fourth section discusses possible strategies the Japanese may pursue in the short, medium, and long run. In the short run, the Japanese need to survive under the new rule of accumulation game set by the US by focusing on the welfare of the common people rather than that of the corporations. In the medium run, it may be required to challenge the rule of the accumulation game. In the long run, disengaging the game of capitalism should be considered. The conclusion section summarizes the argument.

LITERATURE ON JAPAN'S REFORM AND THE PERSPECTIVE AND METHODOLOGY USED IN THIS PAPER

The Japanese economy from the 1990s has been plagued by recession, deflation, and darkening future prospects, prompting many questions as to why the economy is deflating, why expanded government expenditure and lax monetary policy is ineffective, and what would be the way out of this situation. Calls for the reform of existing institutions surged in the late 1980s and the early 1990s. Neoclassical economists and business people demanded governmental deregulation (Ohmae 1989; 1990; Morita 1993). Corporate scandals from the late 1980s involving financial sector companies in particular spurred the criticism of Japanese style stock ownership and resulting unaccountability (Uchihashi & Sataka 1991; Wolferen 1994). Politicians joined the bandwagon of reform, advocating less bureaucratic control (Hosokawa 1993; Ozawa 1994). Bureaucratic scandals that involved almost all ministries in the 1990s (e.g., "Japan's School of Scandal," The Economist, March 14, 1998) generated criticism of the Japanese bureaucratic system, the close connection between the regulating agencies and the regulated companies, and the inept bureaucrats undeservingly enjoying elite status (Dore 1997; Tobioka 1997; Kato 1997). Thus, recession, corporate scandals, administrative mismanagement, and bureaucratic corruption gave momentum to reform as the 1990s progressed.

The diagnosis of the Japanese economy put forth by mainstream economists is that Japan lacks efficiency or market discipline due to various regulations and restrictions imposed by the government (OECD 2001; Overholt 2002). In 1996 Prime Minister Ryutaro Hashimoto introduced reforms in the Japanese bureaucratic system and the financial sector following a neoliberal diagnosis (for review of the reform in Japan, see Molteni 2001; Wakatsuki 2001). This neoliberal prescription included fiscal balancing through consumption tax increase, although the resulting recession brought down Hashimoto from prime ministership. His successor Keizo Obuchi returned to the old way of enlarged fiscal spending and achieved little growth. After Obuchi was ousted, Prime Minister Toshiro Mori advocated reforms but was timid in disturbing traditional LDP (Liberal Democratic Party) politics. The LDP then elected Junichiro Koizumi into the premiership in 2001. Koizumi picked up the neoliberal reforms initiated by Hashimoto by pursuing a reduction in the size of government, privatization of the public service sectors, and reform of the banking sector through intensified competition. His policy appears to have been accepted and supported by the Japanese as his earlier popularity indicated, reflecting the consensus that the old pattern of public spending bonanza would not lead to a bright future (Ihori et al. 2001).

The LDP-initiated reform from the middle of the 1990s, however, is the subject of criticism from those critics who support neoliberal reform but complain about the insufficiency and ineffectiveness of the reform. Mulgan (2000) insists that the LDP-initiated reform will be stalled permanently due to the conflict of interest between the reformers and those LDP politicians who maintain a dominant position through pork barrel politics. Madsen (2001) echoes Mulgan's pessimism about the Koizumi's reform initiative. Bremner (2001) points out that the banking reform initiated by Hashimoto is not yielding any gains (see also "Finance and Economics: Hampered; Bank Reform in Japan," Economist July 13, 2002). This observation underscores earlier pessimism expressed by Hirsh (1998) over Hashimoto's financial reform initiative. Martin (2002) adds to the doubt about Japan's financial reform by suggesting that the curtailment of deposit insurance might further hurt Japanese banks.

On the other hand, the neoliberal reform under LDP leadership is also criticized by those who cast doubt on the application of the neoliberal prescription. Among those who are well informed about the institutional aspects of the Japanese system, Dore (2000; 2001) takes the position that the Americanization

of the Japanese corporate system is not happening, nor is it desirable. Uchihashi & Group 2001 (1995) argue that deregulation introduced by the Japanese government is adding to the nightmare of an already dimming situation. Sakakibara (1995) criticizes the application of the American model to Japan as if it is the only model available. Itoh (2001) offers effective critique of the neoliberal reform from a Marxist and French Regulation School perspective.

While these institutionally informed arguments are superior to the arguments based on neoliberal economics and neoliberalism, both share similar shortcomings. First, the unit of analysis employed by most scholars on Japan's reform and debacle is the national economy, and a solution is sought within this unit of analysis. When the size of Japan's national economy is one-eighth of the global economy, Japanese action affects the rest of the world and triggers reaction from others. For a better understanding of the process 'from miracle to debacle', it is necessary to incorporate other principal actors, such as the US, into the analysis so as to allow examination of the said phenomenon from national, East Asian regional, and world economic perspectives. Second, the existing research tends to pursue a single key factor for the understanding of a complex phenomenon. The search for Japan's uniqueness sometimes has taken the form of an essentialist argument, and most times has generated universal claims that lived a short time until counter-examples were presented. The discovery of unique features illuminates important aspects, but it remains a partial interpretation, often blind to changes over time. Historically informed institutional analysis is preferred, with the understanding that interpretation derived from such analysis is subject to modification as further investigation yields new knowledge. Third, most arguments take a short term perspective, failing to place the current situation in the long cycle of capitalist development, in particular the rise and fall of liberalism. Also, by taking a long-term perspective, it is possible to seek a solution without being constrained by existing capitalist institutions and to question the neoclassical economic assumption of unlimited greed and never satiated needs. Considering that Japan's aging population is expected to start shrinking, and with clear limits in resource and environment, it is time to doubt the merit of pursuing continued material growth and the validity of capitalism as the organizational principle of human society.

In contrast to existing research—based on a short-term perspective, with a small unit of analysis (national economy) and essentialist tendencies—this paper employs the world-system perspective (Wallerstein 1974; 1995; 2000; Shannon 1996; Chase-Dunn 1998) and the methodology of T.K. Hopkins' historical sociology (Hopkins 1982; Hopkins and Wallerstein 1982). The world-system perspective places Japan's trajectory in the context of the world-system which is conceptualized as a system with a single division of labor and multiple states

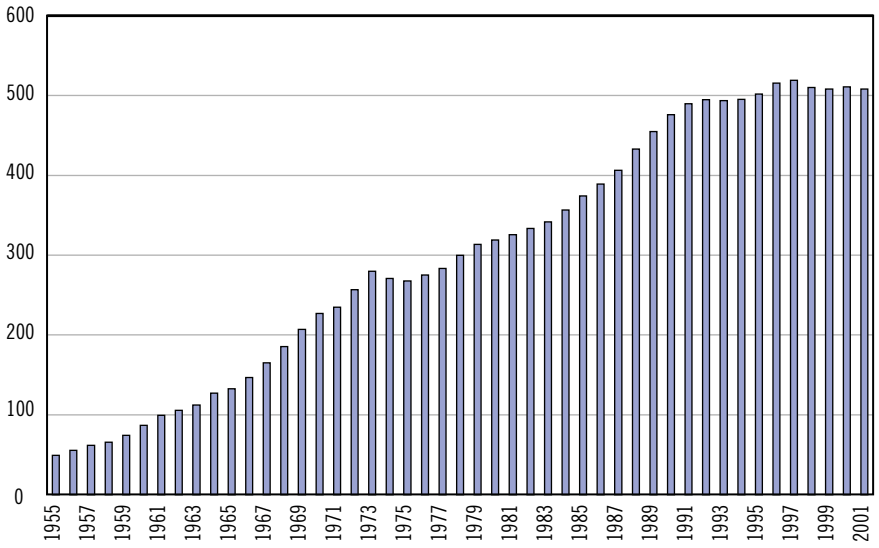
promoting accumulating agencies for the protection and promotion of state interest. The fruit of accumulation activities is distributed unequally, forming the hierarchy of states and the core, semiperiphery, and periphery zonal structure. Hopkins' historical sociology directs our attention to the relationality of historical agencies, expected/unexpected consequences of actions taken by the agencies, and the importance of historical interpretation using reproductive and transformative historical processes. By broadening the scope of analysis beyond Japan and by taking longer perspectives than 20 years, I hope to raise questions and suggest solutions that have not yet been explored. But before attempting the world-systemic appraisal of Japan's experience, the following section summarizes the Japanese transformation from miracle to debacle and establishes social and economic expression of debacle as a national phenomenon.

HISTORICAL SOCIOLOGY OF JAPAN'S MIRACLE AND DEBACLE

This section starts with an overview of macroeconomic statistics to show the process the Japanese economy has undergone in the past fifty years and how Japan reached the debacle of the 1990s. In contrast to the neoliberal story where Japan's demise is blamed on inadequacy of Japanese institutions in the face of the natural and inevitable process of globalization, this section tells the story of the transition from miracle to debacle as a result of an interplay of actions taken by historically existing agencies such as the US state, the Japanese state, Japanese bureaucrats, and both US and Japanese corporations. Also, the concept of debacle will be expanded beyond economic aspects to cover the political, social, and ideological ineptitude that appears to have been plaguing the Japanese people.

Figure 1 shows the changes in Japan's Gross National Income (GNI) at constant 1995 prices from 1955 to 2001 (current GNI was adjusted by the consumer price index). The source of data for this and other figures is the IMF (2001a). GNI is defined as Gross Domestic Product plus/minus external income inflow/outflow. With the increasing importance of international income transfer, GNI is better than GDP as a measure of the economic well-being of a country as a whole. In these 46 years, Japan's GNI grew more than 10 times from 48 trillion yen in 1955 to above 500 trillion yen in 2001. The period between 1955 and 1973 was a rapid growth period, and after the oil shock recession years of 1974 and 1975, a stable growth period (1976–1991) followed. Japan's real income has increased by 100 trillion yen every 8 to 9 years. The pace of real GNI increase was quite steady in the stable growth period, although the growth rate tended to be smaller than those in the rapid growth period. Therefore, it is possible to suggest that Japan's miraculous growth continued into the stable growth period.

Figure 1 – Real GNI in 1995 Yen (Trillion Yen)



But miracle turned into debacle in the 1990s as Japan's real GNI stagnated in the period from 1992 to the present.

The period between 1955 and 1973 is known to be the period when Japan achieved rapid economic growth. I have discussed in other places the institutional formation/transformation that contributed to this phenomenon (Ikeda 1994; 2002: CH.2). Japan's rapid growth accompanied the formation/transformation in the organization of finance, labor, and market. As direct financing declined in importance as the source of capital formation, major Japanese enterprises were organized into several corporate groups that were tied by stable mutual share holdings. Each group had the commercial and investment banks that channeled low cost finance advanced by the state to the member companies. The major industrial corporations created a multi-layered subcontracting system that integrated smaller enterprises whose employees were paid less than those in large corporations. Japan's labor market developed into a segmented market where workers were stratified according to gender, education, age, marital status, etc., and the major corporations indirectly incorporated disadvantaged and marginalized workers through subcontracting. The Japanese government took measures to facilitate accumulation by the major corporations through the creation of monopoly space using trade restrictions, capital control, and competition restriction. The postwar economic transformation was accompanied by the decline of the rural/agricultural sector and the rise of the urban/industrial sector. This transformation created an expanding domestic

market, but Japan's rapid growth was spurred mainly by exports, particularly to the US, and investment in productive facilities.

The miracle of Japanese postwar development/growth was a process of moving up in the hierarchy of the inter-state system. Arrighi and Drangel (1986) attempted the first systematic survey of the zonal structure by comparing GNP per capita, and identified that Japan moved up from semiperiphery in the 1960s/1970s to core in the 1980s. According to Arrighi (1991) only Japan and Italy have achieved miraculous growth in the postwar period. What world-systemic 'factors' would enter into an explanation of Japan's miracle? Cumings (1987) pointed out the political economic condition in Northeast Asian that was favorable to Japan's miracle. Under the condition of Cold War confrontation, the US provided protection and access to US capital, technology, and markets to Japan, South Korea and Taiwan. Arrighi, Ikeda and Irwan (1993) and Arrighi (1996; 1998) advanced the argument that Japan's miracle was a phenomenon integral to the rise of East Asia. Arrighi (1996) summarizes this world-system/regional explanation of the rise of East Asia, of which the Japanese miracle is a part, that it was a result of US strategic favoring, trans-border expansion of the Japanese subcontracting system, and the revival of the Chinese Diaspora network.

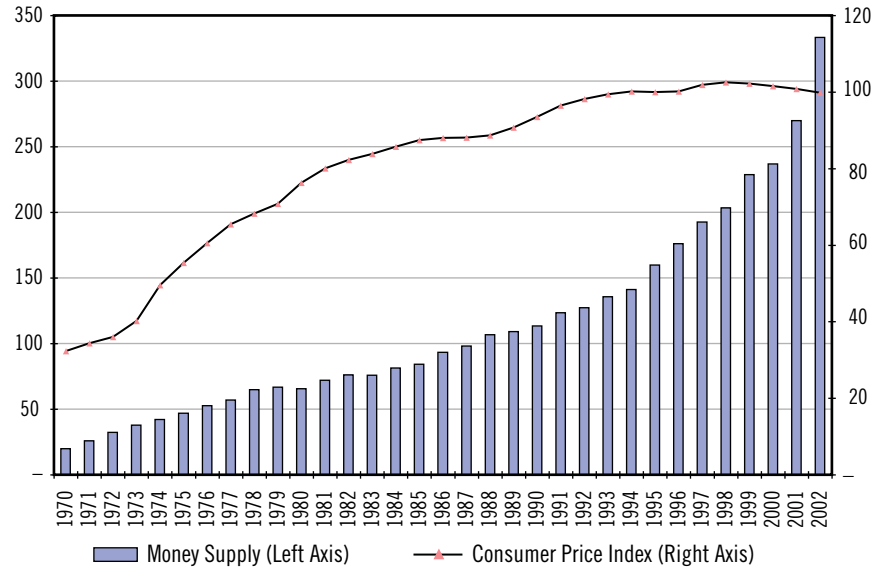
The miracle of Japan's economic growth in the period between 1955 and 1973 may be spectacular, but many other national economies also recorded substantial growth. For the world economy, this was the period of Kondratieff A-phase, or the rising phase of a 50 year business cycle (Ikeda 1996). Together with covert and overt military intervention, the US used national economic development along the capitalist path as an instrument to counter the expanding socialist revolution in the periphery and semiperiphery. At the same time, national economic development with distributive concessions to workers served as a policy to counter socialist movements within the core. The success of this anti-socialist US strategy, however, brought about unintended consequences. The West European countries and Japan promoted national enterprises and challenged US industrial supremacy. US war engagement in Vietnam created a US trade deficit that brought an end to the fixed exchange rate arrangement among the key national currencies. Aspirations of national economic development in the periphery paved the way for resource nationalism in the 1970s, in which export cartels were sought as the instrument to improve terms of trade. The OPEC oil cartel exploited conflict in the Middle East and successfully took away control over petroleum prices from the major oil companies. Sudden oil price increases in 1973 put an end to postwar economic growth.

The Japanese economy was quick to recover from the oil shock recession in 1974 and 1975, and the Japanese manufacturing industries expanded exports to the US. Rapid increase in Japanese market share made the US resort to indus-

trial protectionism, and the Japanese corporations established plants in the US to circumvent export restrictions and to clear local content requirements. By the 1980s, the popular press and academic writers were warning the Americans of Japan's takeover of US industry (Vogel 1979; Ouchi 1981; White 1985). As a measure to curve Japan's exports, the US pushed yen appreciation, or US dollar depreciation, in the G5 Financial Ministers Summit in 1985 in New York. The resulting Plaza Accord and concerted market intervention by the major countries raised the value of the Japanese Yen and the German Mark. This policy, however, further deteriorated the US bilateral trade deficit vis-à-vis Japan, and Japan's foreign asset holdings increased as earnings from exports were invested in US financial instruments and other assets. Also, the strong yen inflated the value of Japan's investment funds measured in US dollar, and the Japanese institutional lenders, i.e., banks, insurance companies, security brokerage houses, etc., became the low-interest bulk finance suppliers in the emerging global financial markets. Toward the end of the 1980s, Japanese industrial corporations, financial corporations, and general trading companies appeared to be heading for global domination, fueling Japanese confidence (Sawa 1989; Takahashi 1990; Mizuno 1991).

This trajectory, however, did not materialize. Responding to yen appreciation from 1985, the Japanese government, always concerned with the welfare of Japanese corporations, applied an expansionary monetary policy to counter the impending 'strong yen recession.' Figure 2 shows the changes in money supply and consumer price index. Between 1985 and 1988, the level of money supply was raised by 26%. This, however, did not cause inflation as shown by the consumer price index, which stayed about the same level. Additional money was poured into the real estate and financial markets, causing an asset bubble. The Japanese banks lent money not based on profitability of the project but on collateral, such as land, bonds, and stocks. The bubble inflated rapidly due to the cycle of lending based on collateral value, borrowed money invested in assets, asset price increase, increase in collateral value, further leading, assets investment, and so on. As shown in Figure 3, stock prices increased rapidly between 1985 and 1989. In ten years from 1980 to 1989, the average Japanese stock prices increased by 5.5 times. By mistaking the asset bubble as harmful inflation, the Japanese government raised the discount rate in 1989 (the discount rate was raised from 2.5 in 1988 to 4.5 in 1989 and to 6.0 in 1990), and this caused a sudden burst of the bubble boom. The Japanese stock market deflated in value by nearly one half between 1989 and 1992. The Japanese debacle was ushered in by the US policy of yen appreciation, but the major culprit was the Japanese government. With misconstrued economic theories and the institutionalized Japanese corporate practice, the government policy fed a greedy dream of easy money.

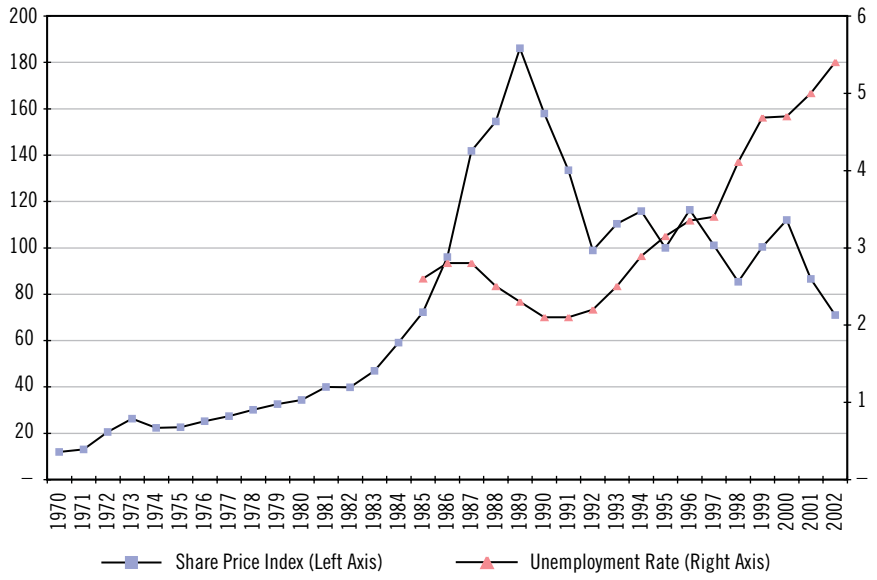
Figure 2 – Money Supply (Trillion Yen) and Consumer Price Index (1995=100)



In the 1990s, the Japanese economy was plagued by insolvent loans held by the banking sector, over-capacity in the industrial sector, stagnant and declining consumer demand, and ultimately misguided government policies. This outcome was a result of actions taken by the Japanese financial companies, industrial sector companies, and the Japanese government, motivated to protect themselves and the existing institutions. However, their actions in turn aggravated the situation further. Let us review how they behaved and examine how they dug the grave of the country's postwar institutions starting with the financial companies.

The bubble economy left a huge number of insolvent loans and financial sector losses that burdened the Japanese economy in the 1990s (Ikeo 2001: 76–80). The amount of non-performing loans held by the Japanese banks is still increasing because continued recession and deflation is bringing many companies into insolvency year after year (Anonymous 2002). The Japanese banks attempted labor-cost cutting, asset consolidation through mergers, and accelerated write-offs with government help in the form of near zero interest on deposits (it fell from 0.9% in 1995 to 0.07% in 2000 [IMF 2001a]), an ample supply of money at near zero discount rates (0.5% since 1995), and government buy-out of bad loans. The Japanese government kept expanding the money supply in

Figure 3 – Share Price Index (1995=100) and Unemployment Rate (%)

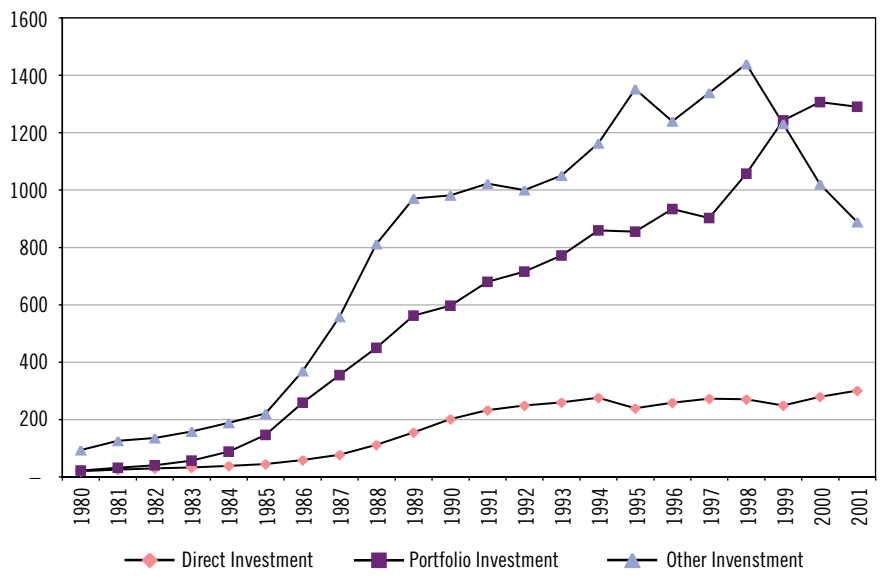


the 1990s (see Figure 2) without stimulating the domestic economy. In fact, a rapid expansion of money supply since 1998 was accompanied by a decline in consumer price (Figure 2) and shrinkage in domestic economy (Figure 1).

An expansion in money supply and continued balance of trade surplus until 1999 were accompanied by an increase in the amount of overseas loans, making Japanese overseas bank loans hot money that contributed to the wave of Third World debt crises including the East Asian financial crisis in 1997. Figure 4 shows the Japanese external investment position (stock). 'Other Investment' is composed mainly of short-term bank and non-bank lending to overseas borrowers. US dollar-denominated portfolio investment and other US dollar-denominated investments are subject to depreciation when the yen appreciates against the US dollar. As a result of yen appreciation, the Japanese financial sector has been giving the US lump-sum income transfers in the form of asset shrinkage in terms of the yen, starting in 1985.

Therefore, the historic mission of the Japanese banks, i.e., gathering household savings for profitable investment with government support, appears to have ended. Japanese banks stopped paying interest and dividends to households. They put the money in overseas speculation/gambling but did not lend money to troubled Japanese corporations, especially small- and medium-size companies. The so-called 'pay off' system that will be introduced in coming

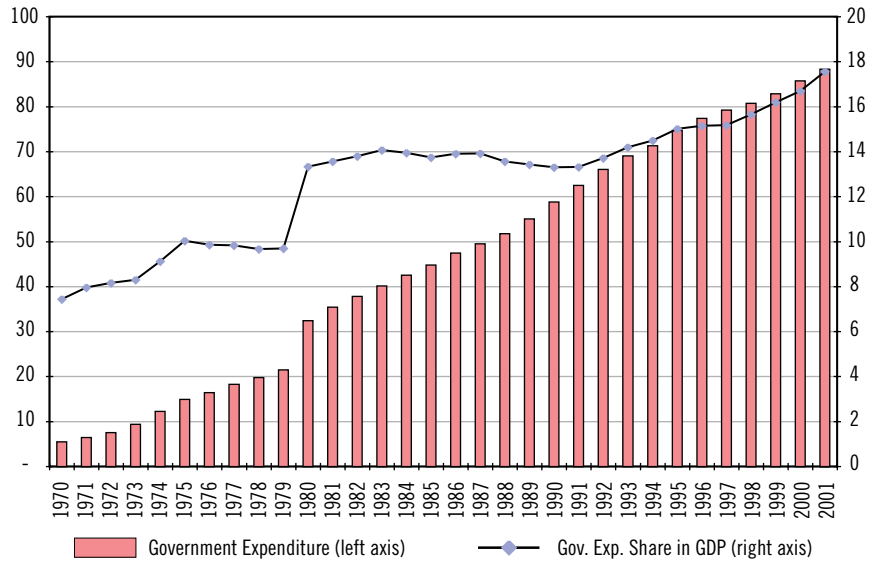
Figure 4 – Japanese Investment Abraod (Billion USD)



years will allow banks to write off payment obligations to the depositors for the protection of banks in the event of bank failures, but this measure can cause a banking crisis due to deposit flight (Martin 2002). Thus, the Japanese financial companies as well as the financial authority managed to turn themselves from a contributing member of postwar prosperity to a cancer-like parasite on the Japanese economy.

On the other hand, companies in the industrial sector laid off workers and relocated plants to low-wage countries. As Figure 3 shows, the unemployment rate soared in the 1990s, and it reached 5% in 2001. Also, the amount of overseas investment as shown in "Direct Investment Abroad" (Figure 4) increased, underscoring the trend of plant relocation. Excess capacity in the industrial sector was a result of the aggressive investment strategy taken by the Japanese corporations in the bubble period, and excess capacity dampens investment demand which has been one of the major components of economic growth up to the 1980s. The Japanese corporations also terminated the postwar social contract as the provider of life-long employment commitment with increasing wages (Abegglen 2001). Declining wages, disappearing jobs, eroding job securities, and the lack of earnings and securities of household investment squeezed Japanese households, dampening consumer demand. The postwar income distribution arrangement whereby the fruit of growth was shared by workers and

Figure 5 – Government Expenditure (Trillion Yen) and Its DGP Share (%)



those that were outside the major corporate networks was coming to an end, shrinking the absorption capacity of the Japanese domestic economy.

Together with private investment, exports became the locomotive of the Japanese economy during the rapid and stable growth periods. Successful Japanese exports, however, invited the demise of Japanese exports. Faced with US protectionism, the companies in the labor-intensive manufacturing sector established plants in the East Asian countries with low wages that received US preferential treatment until the fall of the Soviet Block countries. The companies in the capital-intensive manufacturing sectors, such as automobiles, opened factories in North America. The strong yen after the Plaza Accord forced exporting companies to increase their share of overseas operations. In the 1990s, Japanese exports faced competition from the East Asian countries which expanded capacity to take advantage of the strong yen while fixing their exchange rate to the US dollar. This lasted until the financial crisis in 1997 left their currencies significantly devalued. Consequently, Japan's exports stagnated in the 1990s.

The Japanese government has been the source of problems more than a provider of solutions. Misdiagnosis of the bubble phenomenon on the part of Japanese financial authorities ushered in the lost decade of the 1990s. In addition, politicians and bureaucrats have been involved in various corruption scandals from the bubble period onward. Japanese politicians, those of the leading Liberal Democratic Party in particular, stuck to the old ways of doing business

(or politics) where government expenditure and favor-giving serve as the continuing source of campaign funds to buy electoral votes. The Heisei recession was used as a good excuse to expand government spending. As Figure 5 shows, government expenditure increased steadily, and the share of government expenditure in GDP has increased from 7.3% in 1991 to 17.5% in 2001. The Keynesian prescription for a stagnant economy, i.e., an increase in money supply and government expenditure, turned out to be an utter failure.

Japanese bureaucrats also participated in the fleecing of public funds through embezzlement and abuse of ministry authority as shown by the scandals involving almost all ministries in the 1990s onward. The Japanese bureaucrats have been finding lucrative post-retirement jobs in the private corporations that are under their guidance and control. In addition, the Japanese bureaucrats created a network of public and quasi-public corporations for lucrative post-retirement jobs (Ikeda 2002: 70–81). As high officials moved from post to post, they received big sums of retirement compensation all at the expense of taxpayers. Without stimulating the economy, expanded government spending only raised the amount of government debt. As fiscal health deteriorated, the Hashimoto cabinet raised the rate of consumption tax. This gave a fatal blow to consumer spending in the recovering economy in the middle of the 1990s. The Japanese government's debt reached 1.3 times the GDP in 2001 (IMF 2001b: 18, Table 1.3), the highest among all developed countries, and the market lowered the ranking of Japanese government bonds to a level lower than those of some developing countries (Moody's Investor Service Press Release May 30, 2002). The Japanese government, i.e., bureaucrats and politicians, lost its touch in economic management by turning itself into a parasite, taking part in the dismantling of the postwar corporatist arrangement among the state, capital, and labor.

The Japanese economy, therefore, took the path of debacle as agencies motivated by self-interest acted to overstretch the institutions that supported them earlier and brought a debacle to the Japanese economic system. But the debacle is not limited to economic aspects. The condition of deadlock appears in other aspects such as politics, society, and ideology. The political turmoil that plagued the Liberal Democratic Party in the 1990s was a manifestation of the limit of the so-called 1995 system where the LDP held stable leadership so as to foster corporate-centered economic development with minor distribution concession to the workers. The neoliberal reform pushed by Hashimoto and Koizumi is diametrically opposed to the institutional foundation of the LDP where allocation of public spending and administrative intervention secures its rule in the Diet. Japanese politics is in gridlock between traditionalism and neoliberalism, both of which are dysfunctional. Japanese society appears to be on the path toward a dim future plagued by unemployment, suicide, crime,

population decline, and the lack of hope. An ideology of competition that justifies inequality by blaming the losers of the competition game (which is rigged from the beginning) is ruling the Japanese schools, corporations, and society at large (Kudomi 1993). The popularity of Koizumi may be an indication that the Japanese voters accept the neoliberal ideology of individualistic competition. In the general election in 2002, the Japanese voters rejected the opposition parties that are still rallying for the weak and the unprivileged (Sato 2001). The TINA (There Is No Alternative) syndrome manifests itself in Japan in the form of the acceptance of neoliberal ideology since the traditional way has defaulted and no other perspective is gaining recognition.

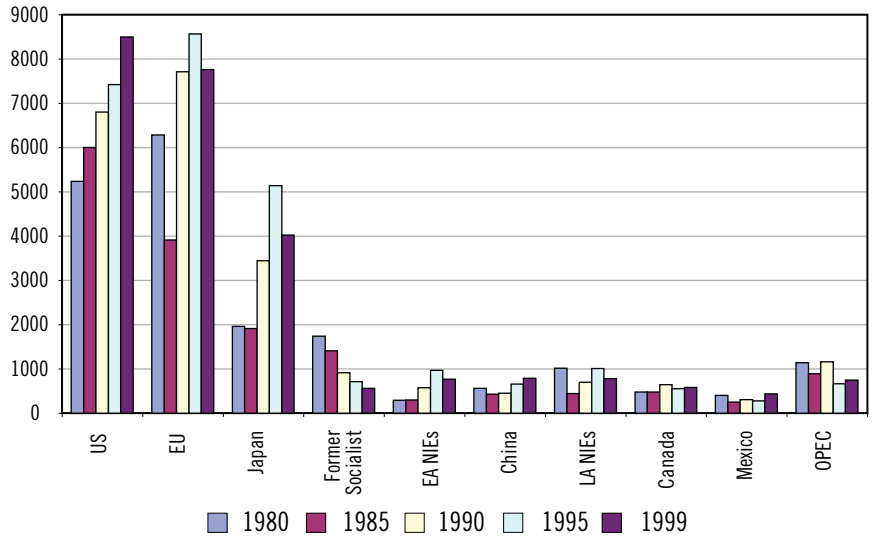
This section identified the process that led Japan to the debacle, but Japan is not alone in this respect. The next section broadens our scope of analysis to the world-system and examines the world-systemic debacle under globalization in order to break the mode of the existing debate, which is bounded by a national and short-term perspective.

GLOBALIZATION, US ECONOMIC RESURGENCE, AND THE DEBACLE OF THE REST

This section expands the scope of analysis from Japan to the world economy and examines the spread of the debacle under globalization. It then lays out a historical sociology of globalization by focusing on policies and strategies taken by the US government and corporations. By placing Japan's trajectory in the world-systemic transformation, it is possible to gain insights as to why the current reforms attempted in Japan are utterly ineffective and inappropriate.

When we take a look at the world economic trends in the 1980s and 1990s, the debacle that plagued Japan turns out to be the norm rather than the exception. Figure 6 shows the changes in real income (real GNI in US dollars) of countries and country groups between 1980 and 1999. The figures were derived by converting current GNI in local currency into the US dollar figures using the market exchange rate and by adjusting them to constant 1995 US dollar figures using the US consumer price index. US real income increased from $5.2 trillion in 1980 to $8.5 trillion in 1999. Combined real income of the European Union countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom) declined between 1980 and 1985 due to currency devaluation against the US dollar and to global economic recession, but increased between 1985 and 1995 as their currencies appreciated against the US dollar despite recession in the early years of the 1990s. Between 1995 and 1999, however, real income of the EU countries declined to a level below that of the US. Japan's real income took

Figure 6 – Real Income of Major Countries and Country Groups (Billion 1995 USD)



a path similar to that of the EU countries with a smaller decline between 1980 and 1985. In 1999, Japan's real income was just above $4 trillion. The industrial countries in Europe and Japan experienced real income decline measured in US dollars while US real income kept growing in the 1990s (with a slight recession in the beginning). Especially in the 1995–1999 period, the EU and Japan went through relative and absolute impoverishment.

The rest of the world also went through stagnation and deflation. Former socialist countries (Armenia , Belarus, Bosnia & Herzegovina, Bulgaria, Czech Republic, Estonia, Hungary, Kyrgyz Republic, Latvia, Lithuania, FYR Macedonia, Moldova, Poland, Romania, Russia, Slovak Republic, Slovenia, Ukraine, Yugoslavia) showed a disturbing pattern of real income decline. The newly industrializing countries in East Asia (Hong Kong, Korea, Malaysia, Singapore, Thailand) showed a remarkable increase in real income between 1985 and 1995, but suffered a setback in the second half of the 1990s. China is an exception in terms of not suffering a declining real income between 1995 and 1999, but its real GNI level is far smaller than that of the US. Latin American NIEs (Argentina, Brazil, Chile, and Mexico) collectively showed a pattern similar to that of the EU countries. Canada and Mexico failed to gain substantively despite their economic integration with the US. The OPEC (Organization of Petroleum Exporting Countries) countries (Algeria, Indonesia, Iran, Kuwait,

Libya, Nigeria, Qatar, Saudi Arabia, UAE, and Venezuela) also lost between 1980 and 1999. These countries enjoyed semiperipheral status at one point, but they went through a process of re-peripheralization (Soederberg 2001) under globalization.

Most developing countries in Africa, South and West Asia, and Latin America and the Caribbean went through impoverishment as they were structurally adjusted by the International Monetary Fund and the World Bank. The structural adjustment program raised interest rates in order to attract foreign investment, devalued currencies to promote exports, reduced public spending so that governments could pay the interest on debt, privatized the public service sector, deregulated industries, and liberalized capital movements (Jomo 1998; Chossudovsky 1998). But higher interest rates deflated the economy, added exports lowered commodity prices, devalued currency lowered export earnings, and reduced government spending and public withdrawal from basic services caused social devastation. Also, privatization, deregulation, and liberalization allowed foreign investors to purchase at bargain prices anything of value including land, labor, companies, natural resources, and the environment. Most of the developing countries (excluding those small economies that became tax havens for global financiers and export processing platform), became poorer in the 1980s and 1990s (Chossudovsky 1998). These countries went through further peripheralization, or peripheral impoverishment.

The examination of real income trends shows that Japan's debacle is not unique; rather, Japan's experience followed a pattern that was shared by most of the countries in the world. The general pattern is the decline of real income through economic stagnation/deflation, rising government and external debt, and devastation from financial crisis or bubble/bubble burst. The exception to this pattern was the US, which achieved a steady increase in real income in the 1980s and 1990s. Therefore, the world economic transformation in the last two decades of the twentieth century can be summarized as "US economic resurgence and stagnation of the rest." And globalization should be understood as the political, economic, and social process that brought in this transformation with the following characteristics.

Globalization is a phenomenon of the late twentieth century where national economic development was replaced by global competition among the corporations of different national origins and among the individuals from different countries on a global scale. The walls of national economies have eroded as a result of deregulation, liberalization, and privatization which were either imposed on or willingly adopted by nation states. Transnational corporations dominate global accumulation activities, especially in the developing countries, at an unprecedented degree. The IMF and the World Bank forced those

developing countries suffering from mushrooming debt to adopt TNC-led globalization through Structural Adjustment Programs (SAPs). The theoretical foundation of SAPs is neoclassical economics where the 'free market' is celebrated as the solution for any economic problem even though the beneficiary is monopolistic/monopsonistic global corporations (under the assumption of perfect competition, monopoly and monopsony are supposed not to exist). The ideological expression of neoliberal economics, i.e., neoliberal ideology, became truly hegemonic in the circle of international bureaucrats. Liberalization of the flow of goods, services, and finance was achieved through multilateral agreements such as the WTO and regional agreements such as European Union and North American Free Trade Agreement (NAFTA). In this process, the US Americanized the financial system of non-US economies as well as the global financial system (Kaufman 1994). Also, globalization was a process where the US dollar became the only global currency that expresses universal value for transaction and account settlement. This was a process pushed by the US government that represented the interests of Wall Street (US financial establishment), major corporations, and the asset-holding interest earners/rentiers (Strange 1986). Gowan (1999) describes this relationship as the Wall Street-Treasury Complex.

From an economic point of view, globalization was a process where the US re-established domination in the inter-state system, and it was a process where the capitalist/rentier class regained control over the accumulation process. Welfare state provisions were pushed back in the interest of the rich and the propertied class, including those who have investments in mutual funds, saving accounts, and pension funds. The world-systemic regime of accumulation (Arrighi 1994) had shifted from the growth regime in the 1950s to 1960s to the distribution regime from the 1980s. Under the growth regime, which is conceptualized as the Fordist regime of accumulation by French Regulationists, the benefits of economic growth were shared by the working class, legitimizing capitalism. Under the distribution regime, income is transferred from the indebted to the creditors and from the working class to the capitalist class without growth. This is done under the ideology of neoliberalism that sanctions greed of the rich and the propertied and places the blame for poverty on the poor and the non-privileged. Most of the households in the core countries derive income from wage labor and investment in assets, creating a working class that shares interest with the rentier/capitalist class yet receives a declining share of concessions. Therefore, globalization was a historical process where the US regained economic domination, the capitalist/rentier class regained control over accumulation processes at the expense of the working class, and the distribution regime replaced the growth regime.

The historical process of globalization was ushered in by the actions/policies taken by the US ruling class from the 1970s in response to the challenges the US faced. The US economy dominated the world economy in the early years of the postwar period, but its dominant position in production, trade, currency, and finance was threatened from the late 1960s (Reifer and Sudler 1996). The challengers included West European countries and Japan, which promoted national enterprises to challenge US corporations and industries. State socialism in the USSR and the eastern block countries were successful in the 1960s and 1970s, and it challenged US military control in various places in Asia, Africa, and Latin America. The Third World countries mobilized the United Nations (especially UNCTAD, United Nations Conference on Trade and Development) to improve the terms of trade in their favor and to increase development assistance from the developed countries. Oil producing Third World countries formed OPEC and successfully raised oil prices in the 1970s, promising the possibility of development through resource exports. Also, the export-oriented industrialization strategy taken by the so-called Newly Industrializing Economies (NIEs) in East Asia and Latin America added further competition for US corporations.

These challenges to the US forced the American government and corporations to take countermeasures. These included the end of dollar-gold convertibility (1971); the end of fixed exchange rates (1973); financial deregulation such as foreign currency transactions without trade and the elimination of walls separating banking, investment banking, insurance, and other financial services activities (1970s onward); and anti-inflation interest hikes (late 1970s). The tripling of discount rates in 1978 and 1979 by the Federal Reserve Bank triggered the Third World debt crisis, but the US government saved US lenders (and others from Europe and Japan) by remaking the IMF and World Bank into the institutions that salvage US banks through debt restructuring. The entire burden of bad loans was placed on the debtor country. At the same time, the conditions attached to debt restructuring allowed the US government to impose neoliberal reform on the debtor country, dismantling the 'national economy' and opening it to foreign investors and corporations. Military buildup by the Reagan administration from 1981 brought the demise of state socialism, and exchange rate adjustment through the Plaza Accord resulted in the end of the Japanese miracle. The US government pushed financial deregulation onto other countries to aid American corporations, banks, and investors, and the global economy became dominated by global casino gambling, as Strange (1986) so aptly described it. US demand for a 'level playing field' and 'opening markets' in the newly industrializing countries in East Asia after the fall of the Soviet block prepared their path toward the financial crisis and the debacle of

these countries (Ikeda and Kim 2000). OPEC countries became rich while they could control the oil supply, but such ability had eroded as many non-OPEC oil-producing countries expanded petroleum production and global economic stagnation created the condition of excess supply. The strategy of the US government and US oil interest neutralized the power of OPEC, ending the hope of Third World resource nationalism that cartels among resource exporters would raise income from exports.

US corporations, on the other hand, took a direction in which production ceased to be the key process in profit making. They accelerated the de-industrialization of the American economy through international transplantation, international sourcing, and acquisition of foreign production facilities. The key operation has shifted to marketing, product design, public relations, and financial operation. Consequently, intellectual property rights became important as the primary source of monopoly rent while production is delegated to low wage countries. Under the stagnant economic conditions, financial services, or interest collection activity from debtors and fee collection activity from the participants of legally sanctioned gambling in the global financial markets, became the key source of surplus appropriation. With most liberalized markets, the US corporations became the leader in inventing financial instruments (means of gambling) and the US financial market became the Las Vegas for investors from all over the world. Concurrently, US corporations pushed the US government to break down the walls of the national economy and exploited the opportunity to buy land, labor, and companies in the rest of the world at bargain price.

The policies and strategies of the US government and its corporations amounted to changes in the rules of the game of accumulation. The new rules favor American corporations over non-American corporations, finance over production, the capitalist/investor/rentier class over the working class, and the rich people in the North over the poor people in the South. The institutional framework that fostered stable economic growth in the 1950s and 1960s was challenged and dismantled in the 1970s onward. Such dismantled institutions included the Keynesian welfare state in the North, national economic development projects in the South, state socialism in the East, authoritarian developmentalist states in East Asia, and the Bretton Woods Arrangement. The resulting changes, called globalization, opened up national borders for US investors and corporations, established superiority of finance over production (financialization), and placed the US dollar as the sole global currency (US dollar hegemony).

Since 2002 the world economy has entered the era of US bubble deflation. Global capital flows into the US market have reversed and stock prices are falling. As the propertied class suffers from capital loss, the US is joining the rest

of the world, which has been in protracted deflation for some time. Globalization has created a mass of impoverished people through the debt enslavement of developing countries, newly industrializing countries, and formerly socialist countries. China may be the only exception, but its participation in WTO and eventual capital liberalization may bring a crisis to China which is similar to the debacle in Japan. The success of Chinese exports was a result of Chinese conformity with the neoliberal economic order and not of Chinese challenge to US domination. If we apply Arrighi's definition of hegemony that a hegemon leads the world-system with a dominant regime of accumulation, then China is not a rival to the US since it has not yet shown what would be the new regime that would replace the current one. China, up to now, has played the capitalist game according to US rules, and for China to emerge as a new hegemon, it is necessary to establish a global financial system that dismantles US dollar hegemony given the supremacy of finance in the global accumulation game (Ikeda 2003).

Stagnation and deflation in Europe and Japan had robbed these economies of dynamic growth potential. The Japanese debacle is not an isolated phenomenon. It is part of a global economic crisis (Yoshikawa 2001) that was triggered by global financial deregulation and liberalization (Giron 1998), and that now engulfs the United States. The financial sector of the economy became independent of the real sector, and it is destabilizing and devastating the real sector (Maull 1999). Given such a worldwide phenomenon triggered by neoliberal reform of the financial sector, the solution to the Japanese problem cannot be sought simply within the Japanese economy and through neoliberal reforms. The root of the problem is the limits of capitalist development on a world scale, and the time has come to reevaluate capitalism in an effort to secure a better future.

JAPAN, GLOBALIZATION, AND BEYOND CAPITALISM

US economic resurgence under globalization is coming to an end in the form of US bubble deflation since 2002, involving an American stock price fall and US dollar devaluation against the Euro and the yen. The global recession that started in the 1970s is finally entering the phase of global deflation. Hopkins and Wallerstein argued in the middle of the 1990s that the capitalist world-economy has been in a triple downturn of the Kondratieff business cycle of 50 years, the US hegemonic cycle of 100 years, and the capitalist world-system of 500 years (Hopkins and Wallerstein 1996). These three different temporal perspectives give different outlooks and answers to the problem of Japan's debacle. The short-term perspective directs our attention to the question of how to survive under global deflation. The medium-term perspective sets the current

situation in US hegemonic decline where the US changed the rules of the accumulation game in order to prolong its domination. The solution the Japanese can pursue centers around challenging the new rules, and how to change them to Japan's advantage. The long-term perspective guides our attention to the fundamental contradiction of capitalist development. Given global environmental and natural resource constraint together with Japan's demographic constraint, a new direction needs to be sought that is not constrained by the existing institutions and practice of capitalism. Let us examine the problem and possible solutions from these perspectives.

Most discussion on contemporary Japan is based on the short-term perspective that takes the national economy as the unit of analysis. The mainstream argument goes more or less as follows (for a compact summary of current reforms, see Molteni 2001). Japan's debacle is a result of institutional obsolescence in a new age, and the solution is neoliberal reform of Japanese corporations, the bureaucratic system, and the financial sector. Once public service is privatized and the financial sector writes off non-performing loans, then the Japanese economy will enter a recovery and growth process. Schumpeterian innovation involving biotechnology, nano-technology, fine material technology, and information technology will prepare renewed growth. For the acceleration of this process, Japanese corporate structure requires neoliberal reform where the existing commitment to employees, suppliers, banks, and other stake-holders is scrapped and replaced by bottom line considerations (shareholder interest).

These neoliberal diagnoses and prescription are completely inadequate because of the global dimension of the debacle. Single country-based neoliberal policy has been destroying one national economy after the other from the 1980s, and adopting neoliberalism in Japan will not help but further accelerate the deepening global debacle. Moving up from the second class deck to the first class deck in a sinking Titanic does not make much difference. We need to face up to what is causing the world-systemic debacle.

The last time the world-economy faced major asset bubble deflation was the Great Depression in 1929. But global recession had already started in the late nineteenth century. As Marx observed, capitalism went through the cycle of boom and bust and the depth of recession/depression was getting deeper. The world economy was facing the limitation of the structure of accumulation that depended on imperial conquest of the extra-European world for natural resources, commodity production, and market. Except in the US where the internal market was expanding, imperialist European countries and Japan faced stagnant domestic markets due to low wages. The solution was sought in further acceleration of imperialist expansion, and inter-imperialist strug-

gle ensued. The First World War destroyed productive capacity throughout Europe, but the fundamental contradiction of liberal capitalism continued to exist, i.e., limited effective demand due to worker exploitation and the market control (which means no control in reality) of credit creation and distribution under the gold standard system. Further militarization only partly solved the demand shortage, but the contradiction of over-capacity and under-consumption under liberal economic arrangements ushered in the Great Depression and the Second World War. The imperialist regime of accumulation was replaced in the postwar era with the growth regime where effective demand was created through increasing wages and government expenditure and financial power was controlled under Keynesian monetary policy, restriction in international capital flow, and a fixed exchange rate arrangement. Previously colonized people gained political independence, and they too were integrated into the growth regime with the hope of national economic development.

In the beginning of the twenty-first century, the distribution regime of accumulation is showing signs of exhaustion just as the imperialist regime of accumulation did at the beginning of the twentieth century. Declining wages and insecure job prospects are robbing workers of purchasing power; neoliberal doctrine has stripped the government of fiscal capacity to control effective demand; and the US bubble deflation is ending the capital gain bonanza for the capitalist class. Over-capacity is reduced this time not through war devastation but through SAP- and debacle-induced devaluation of productive assets. And just as the imperialist regime claimed many human lives in the first half of the twentieth century, the distribution regime is creating hunger, civil strife, environmental destruction, and social degradation in many parts of the world. In spite of rising poverty and global deflation, neoliberal ideology is still dominant as was the case of imperialism in the beginning of the twentieth century. By comparing the classical liberalism of the nineteenth century and the neoliberalism of the early twenty-first century, Itoh maintains that "just as classical liberalism failed in the mid 19th century, neo-liberalism is also unable to achieve a rational, harmonious and efficient economic order" (2001: 124).

Under this darkening scenario, the short-term objective for Japan ought to have been the maintenance of living standards. The Japanese household sector is increasingly facing the threat of unemployment and declining wages. The value of its assets in the form of bank deposits and bond and security investment is threatened due to curtailment of deposit insurance, bankruptcy of banks, insurance companies, and brokerage houses, collapse of stock markets, and dismal future prospect. These developments started as an aftermath of bubble jubilation, but the introduction of neoliberal reform, or the market, under the Hashimoto and Koizumi cabinets worsened the situation for Japanese households.

Some argue that the reforms are not proceeding due to the resistance of the old guard in the LDP who fear erosion of their power base (Mulgan 2002). Under globalization, both the old way and new way are not working for Japan. Since the situation is worsening, the Japanese household sector needs to find ways to maintain its living standard outside existing economic institutions dominated by large-scale monopolistic corporations under state protection. Some of the strategies already emerging, although they may be still in their infancy, include voluntary exchange of non-wage labor, local currency for the support of locally contained economic activities, and slow food and slow life movements promoting choices and lifestyles free from corporate domination. The existing political structure, which favors the corporation and sacrifices the household, needs to be challenged. The Japanese voters need to demand life-based politics instead of sectarian interest-based politics.

Existing financial institutions have become overly globalized and internally corrupted, and the Japanese banks, insurance companies, and brokerage houses have proved themselves to be the cancer of the Japanese economy. They not only devoured household savings and investment but also gulped down taxpayer money without showing any sign of improvement. In the discourse of neoliberal reform, corporate accountability and transparency is said to be the foundation of solid corporate governance. The Japanese banks are the worst perpetrators of "unaccountability and non-transparency" and constitute deadweight for the Japanese economy. The issue here is the alienation of asset holders from direct involvement in the selection and control of investment projects. Therefore, financial reform should be promoting a small-scale, locally based system where the investors have greater control of investment. At the national level, investment cooperatives should be promoted so that the lenders can choose corporate and household borrowers through the judgement of project viability based not only on financial return but also on the impact on local economy and on social and cultural contributions. More investor involvement requires the Japanese to become knowledgeable and responsible investors, and this is the only way to use their investment funds for a better future and not for wasteful global gambling.

While the short-term goal for the Japanese is survival and maintenance in the period of global debacle, the medium-term goal should involve challenging the rule of accumulation game the US has imposed on the rest of the world. This is based on the earlier argument that the current debacle is the result of US-led globalization wherein the growth regime was replaced by the distribution regime, or US dollar domination under the neoliberal economic order. If the Japanese are to rescue themselves from subordination to the US, then they need to challenge the US government and corporations that are pushing the

neoliberal economic order. What would constitute an effective challenge to the US economic domination, or how can Japan change the new rules of the game imposed by the US?

Japan's success in export promotion, in retrospect, triggered the financial domination over production that accompanied the establishment of US dollar hegemony. Japanese surplus was poured into the US and European financial markets, and the value of US dollar-denominated assets dropped when the US dollar depreciated against the yen. The US demand for Japanese reform, which is embraced by Hashimoto and Koizumi, is to dismantle state control over credit creation and allocation. Although such national sovereignty became the source of bureaucratic and corporate fleecing, abandoning it does not help the situation. What Japan failed to achieve under US dollar hegemony is the creation of an international mechanism that translates Japanese external assets into a secure and growth-inducing tool of investment. Japanese savings domestically and internationally are wasted and shrinking in size because they are poured into the global casino where the house, the US, has been the only gainer. The return from gambling might have been high while the bubble was inflating, but as the bubble deflated or was burst, capital loss is and will be mounting to choke the economy to slow death. In order to avoid the trap of market induced global financial death and subordination to US dollar hegemony, a new mechanism of investment and asset management needs to be created.

Such a mechanism can be conceived at the level of local communities, the national economy and the East Asian regional economy. Local currency and credit creation/allocation mechanisms will allow people to monitor directly the ways in which their investments are used for the objective of creating a sustainable local economy. At the regional level, closer coordination among East Asian countries will create a mechanism where the external surplus countries can invest in the deficit countries without being exposed to exchange risk and speculative disturbances. In Japan and East Asia, rapid and stable economic growth was achieved earlier not because they relied on 'functioning markets' that are supposed to bring growth, but because the state took the major role in directing credit creation and allocation. Closer financial cooperation among the East Asian countries needs to focus on the creation of a financial system that is secure, productive, and growth generating for East Asia unlike the existing neoliberal financial arrangement. Today's global financial system promotes fleecing by the global investors/rentiers with insecure, risky, destructive, and distributionally polarizing investment which is deceptively promoted by the ideology that the market is efficient and growth inducing. Japan's medium-term goal, therefore, calls for establishing an East Asian institutional framework that facilitates mutually beneficial flow of investment funds from Japan to the East

Asian countries in addition to a mutually beneficial trading system.

The long-term perspective calls our attention to the viability and sustainability of the capitalist mode of social organization. Endless accumulation has been the historical mode of operation under the capitalist world-system from the sixteenth century (Wallerstein 1995). But the system appears to be facing the limits of further accumulation in the form of environmental degradation as shown by global warming and resource exhaustion, and expected water and petroleum shortages. Capitalism has been the engine of material growth, and the recipients of the benefits of material growth have been limited to the inhabitants of the core countries. For the majority of humanity living in the peripheral countries, capitalist material growth has been a curse instead of a blessing, since they were exploited as the source of cheap labor in the form of slaves, indentured workers, and low-wage factory and plantation workers throughout the history of capitalism. US-led globalization is further polarizing global income distribution, and the number of the impoverished is increasing. The world is truly facing the limits of the global ecology, its natural resource, and human societies. Given these limitations, it is time for the Japanese to discard material growth as the necessary condition for development.

In contrast to the medium-term goal of challenging the US-imposed rule of the neoliberal competition game, the long-term goal involves abandoning the game altogether. This game of capitalist development was characterized by the axial division of labor (the world economy was integrated into a single network of production), with multiple political jurisdictions organized into an inter-state system with limited and unequal sovereignties. The capitalist world-system went through changes in the regime of accumulation as it faced the limit of existing regimes. The last time liberal ideals brought about a global debacle, the world economy moved to a growth track through the Keynesian revolution, the incorporation of workers in the core countries as the source of consumer demand (Fordism), and colonial independence that created peripheral states that were willing exporters of natural resources and commodities to the core. Similarly, it may be possible to bring back the current world economy through major income redistribution from the core to the periphery, and by providing workers with rising wages at the expense of the owners of global financial surplus.

It is easy to see that such radical income redistribution goes against the current regime dominated by the global investor/rentier/capitalist class. It took almost half a century and tremendous human casualties for the last liberal arrangement under the imperialist regime to be replaced after showing the first sign of debacle in the late nineteenth century. The current neoliberal arrangement under the distribution regime may linger for some time while dragging

the world economy through deflation, crisis, and chaos. Capitalism survived the crisis of liberal economy by allowing some of the working class to be the beneficiaries of the material wealth generated under the growth regime. This time, it may not be enough to bribe just a part of the working class since the limit of expansion is global and fundamental. It is quite possible that whatever comes after the distribution regime of the current neoliberal craze may be an arrangement where capitalism recedes to the background to an extent that we cannot call it capitalism any more. Furthermore, such redistribution of income from the rich to the poor will help in restoring an ecological balance by lowering energy and resource consumption.

Movements toward establishing something better than capitalism are on the rise in efforts to overcome the problems of ecological, resource, and social limitation. Examples of challenging paradigms include the subsistence perspective and ecological feminism (Bennholdt-Thomsen and Mies 1999; Bennholdt-Thomsen et al. 2001) and bottom up resistance to globalization (Starr 2000; Feffer 2002). For the Japanese, it is necessary to consider the alternative ways of life that overcome the current problems. The current problem is not material shortage since the Japanese achieved significant levels of material wealth. The major problem is the gloomy future prospect of an economy that is heavily dependent on the monopolistic major corporations and the corrupt government that supports them. Japanese corporate society has been raising the stress level of the Japanese people, but now it stopped delivering the goods it promised. It is time for the Japanese to disengage in the competition game for unlimited material 'growth' at the expense of the poorer countries that supply resources and labor at low prices. Instead, it is necessary to start engaging in cohabitation, cooperation, and harmonious co-existence within Japan and with the people of the world. A large part of the Japanese economy functions without being dependent on the major corporations and it is necessary to expand the realm of activities not dictated by the profit motive. Once such a choice is made, then it will become clear what to do with the existing dysfunctional institutions.

Japan as a society is facing a major challenge. In the short run, its survival and the maintenance of people's living standards are at stake. In the medium run, Japan needs to challenge the rules of the global accumulation game imposed by the US. In the long run, the Japanese need to examine whether they should keep engaging in the game of capitalist accumulation. In the politico-military arena, Japan is subordinated to the US since 1945. The US is engaging in military intervention to advance US interests, and Japan is following the US blindly, just like the Japanese in the first half of the twentieth century who followed their military leaders. The lack of an alternative vision to neoliberalism and unilateral US militarism is darkening the prospect for Japan. A new vision

is possible only when we take a broader and longer perspective. It is time for the Japanese to question what is good for them and the global humanity instead of continuously asking for more goods.

conclusions

The picture this paper attempted to paint was that Japan's success invited a US reaction, which in turn undermined the institutions that brought Japan's success. The fate of Japan is a phenomenon shared by other developed and developing countries. But Japan's success in material growth brought corporate domination, bureaucratic and political corruption, social degradation, and the loss of direction. Koizumi is promoting conformity with the American standard where monopolistic corporate domination replaces manipulation/embezzlement/bribe taking by bureaucrats and politicians. The goal for Japan should not be the further pursuit of material growth at the expense of workers, consumers, and the environment by favoring inept but greedy bank and corporate managers. The goals are to promote meaningful life not subjected to corporate doctrine, expand sovereignty by widening and deepening independence from monopolistic corporations, protect national sovereignty, expand East Asian regional cooperation in trade and finance, and challenge the false capitalist ideology that insists unlimited capitalist greed will bring goods for all.

Once the Japanese followed military generals devastating neighboring countries and Japan itself. Yesterday, the Japanese followed Japanese corporate managers and bureaucrats. Today, they are following American corporate managers and politicians. Once, the Japanese were told that they were the children of the emperor. Yesterday, they were told that they are the members of the corporate family. Today, the Japanese are told that they have to survive by themselves as individuals. It is time to reclaim the society not for the emperor or corporation or individuals, but for a humanistic future for all.

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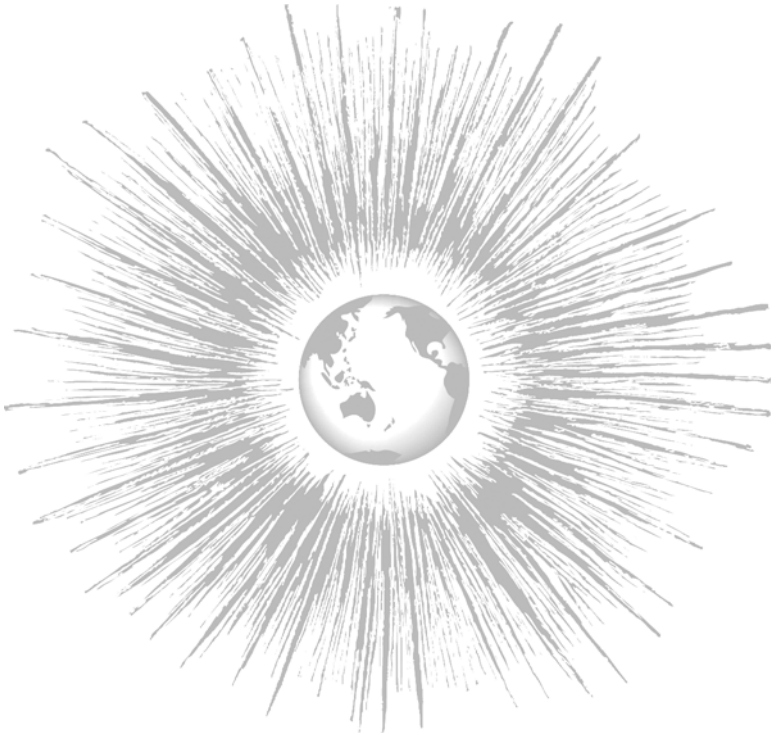

ABSTRACT:

The Calumet & Hecla Copper Company was a firm funded by core capital, but operating in an internal periphery (Michigan's Upper Peninsula), and eventually subject to peripheral constraints, along with the constraints of the physical environment, the physical characteristics of copper, and a concentrating industrial structure itself due largely to the physical characteristics of other types of copper mined elsewhere in the world. I focus on the firm's efforts to maintain market access in the face of both a restructuring copper industry, driven by the coming on-line of much larger, lower-grade deposits that required much larger aggregations of capital to extract and process; and a restructuring transport system, driven by copper's industrial restructuring, but also by the politics of core and periphery within the U.S., including the imperatives of transport capital that tied peripheral resources to core manufacturing industry. A number of world-systems works over the past decade have examined periphery-core resource transport, exploring its importance to historical capitalism via increasing the speed and scope of circulation, improving access to raw materials, and being a leading sector for rising hegemons, due to the ever-increasing need for raw materials entailed by economic ascent. The case examined here was part of the United States' own core emergence and eventual hegemonic ascendance, which was largely based on its domestic raw materials and the internal transport lines that enabled core industry to gain cheap access to those resources.

The Political Economy of Raw Materials Transport from Internal Periphery to Core in the Early 20th Century US: The Calumet & Hecla Copper Company's Struggle for Market Access, 1922–39

Jonathan Leitner

The physical characteristics of a raw material are a salient concern for extractive enterprises (indeed, for nature-based industries in general; see Boyd et al 2001), since the pertinent technologies of extraction, processing and transport are at least somewhat influenced by the physical characteristics of the resources involved (Warriner 1988:497; Schmitz 2000:77). We can also trace the political economies of extractive regions and industries back to the physical characteristics of natural resources (Bunker 1992), a general consideration that is now receiving increasing attention among a subset of world-systems scholars concerned with both the peripheral impacts of natural resource extraction and the importance of resource access for core ascent (e.g. Barham et al 1994; Bunker 1994, 1996; Ciccantell 1994; Dunaway 1996b; Leitner 2003), as well as being recognized as a key to how certain sectors of the world-economy are structured (e.g. Leitner 2001; more generally Boyd et al 2001), and perhaps even how the world-economy as a whole is structured (Ciccantell and Bunker 2002:63–70).

In a related vein, resource transport from periphery to core has also received some recent attention in the world-systems literature, with works over the past decade exploring transport's importance to capitalism's historical development, through increasing the speed and scope of circulation, improving access to raw materials, and being a leading sector for rising hegemons, in part due to the ever-increasing need for raw materials entailed by economic ascent (Hugill 1993; Ciccantell and Bunker 1998a, 2002; Bunker and Ciccantell 1995b, 1999; Bunker 1996, 2003; Ciccantell 2001:60–64). In the specific case of the United States, Bunker and Ciccantell (1995b:112; 1999:109, 115–16) posit that its core emergence

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and hegemonic ascendance was largely based on its domestic raw materials and the internal transport lines, chiefly rail but also water, that enabled core industry to gain cheap access to those resources (cf. Arrighi 1999:228). This paper examines a part of that process, through the experience of the Calumet & Hecla Copper Company—a firm funded by core capital, but operating in an internal periphery (Michigan's Upper Peninsula), and eventually subject to peripheral constraints, along with the constraints of the physical environment and the physical characteristics of the commodity it extracted and processed, and a concentrating industrial structure due in large part to the physical characteristics of the copper its competitors mined elsewhere in the world. In particular, I examine the firm's efforts to maintain market access in the face of both this restructuring industry and a restructuring transport system: the former driven by the coming on-line of much larger, lower-grade deposits that required much larger aggregations of capital to extract and process (Schmitz 1986, 1997, 2000); the latter driven by the former, but also by the politics of core and periphery within the U.S., including the imperatives of transport capital that tied peripheral resources to core manufacturing industry.

I should first address two *caveats*, however. One methodological: without falling back on a sort of methodological individualism, correspondence between corporate managers can provide an important data source for the decision-making process within firms, one that I rely on heavily here. Another metatheoretical: granted, studying a given firm within the context of the world-system, or more specifically the world-economy, can be problematic. Wallerstein (1991:43) warns that the study of core-periphery relations at the sub-nation-state level risks "edg[ing] ourselves towards an asymptote where, once we arrive at the level of individual enterprises, we have lost almost all significant spatial reference." And the game may not be worth the candle: Ciccantell (1994:53) comments that the world-systems perspective "offers only limited insights" about the roles that firms play as "social actors" in the world-economy.

Yet Chase-Dunn (1989:310) argues that "some world-system processes *must* be studied by examining smaller units of analysis such as nation states or transnational firms" (his italics). De Oliver (1995:567) asserts that the transnational corporation has been "the principal vector for carrying capital from the core to the periphery—and just as important, directing it within the periphery" (also see Barham et al 1994). We should add that the firm in question does not necessarily have to be a transnational operator, when we recognize the world-system is nested (Chase-Dunn 1989:209–10), and that internal peripheries exist, even within otherwise core nation-states like the United States (see, e.g. Bensel 1984; Agnew 1987; Dunaway 1996a; Beaman and Hraba 1991; Hanna 1995; Robbins 1994; Billings and Blee 2000). Further, studying the politics of core and periphery in these smaller units allows us to gain a finer-grained understanding of the politics of the world-economy by seeing how they play out on the ground.

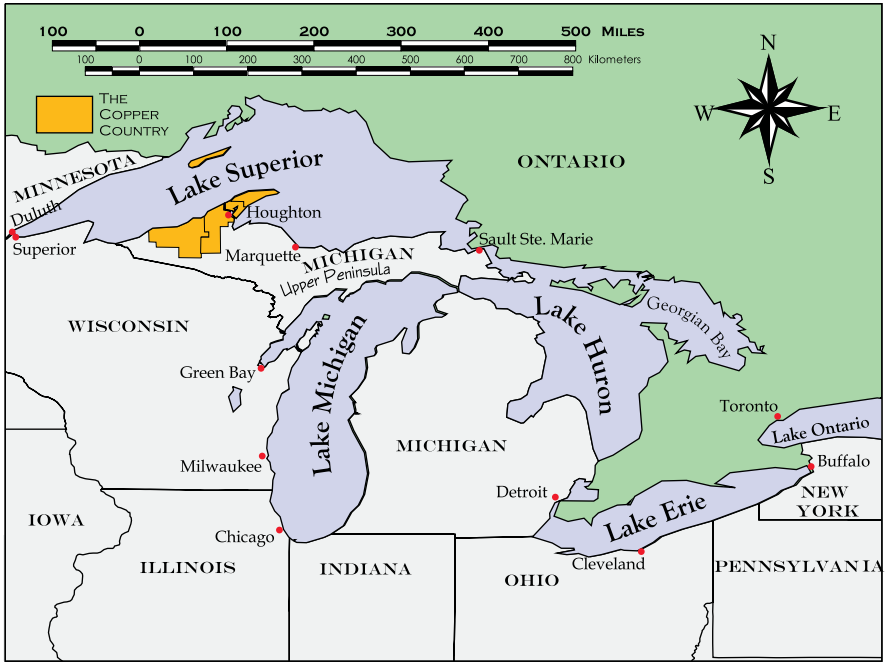
Calumet & Hecla's transport bind: getting copper to core customers *competitively*

> The element of transportation in this highly competitive era enters so materially into the delivered cost of the supplies we purchase, and the delivered cost of the commodity we sell, that we must be ever alert to changes in rate bases affecting either our inbound or outbound traffic.
>
> —J.J. Mechlin to James MacNaughton
> (18 August 1933, C&H/Box 74/Folder 44)

The traffic manager of the Calumet & Hecla Consolidated Copper Company (C&H) made the above comment to the company president in the depths of the Great Depression. C&H was still the most prominent firm in the Upper Peninsula (U.P.) of Michigan's copper region (the "Copper Country"; see Maps 1–2), producing over 4.6 million pounds of raw copper during 1867–1946, or nearly 49 percent of the regional industry's total (Gates 1951:230). During the 1870s, Michigan producers, led by C&H, held a nearly monopolistic position in the U.S. (Whitten 1983:169). Western U.S. copper deposits were soon discovered however, and Michigan producers were dwarfed by western U.S. producers in the early 1900s; by the 1920s the Copper Country's stature had shrunk considerably, dropping from well over 80 percent of U.S. smelter copper production in the 1870s, down to under 10 percent in 1923 (see Chart 1).

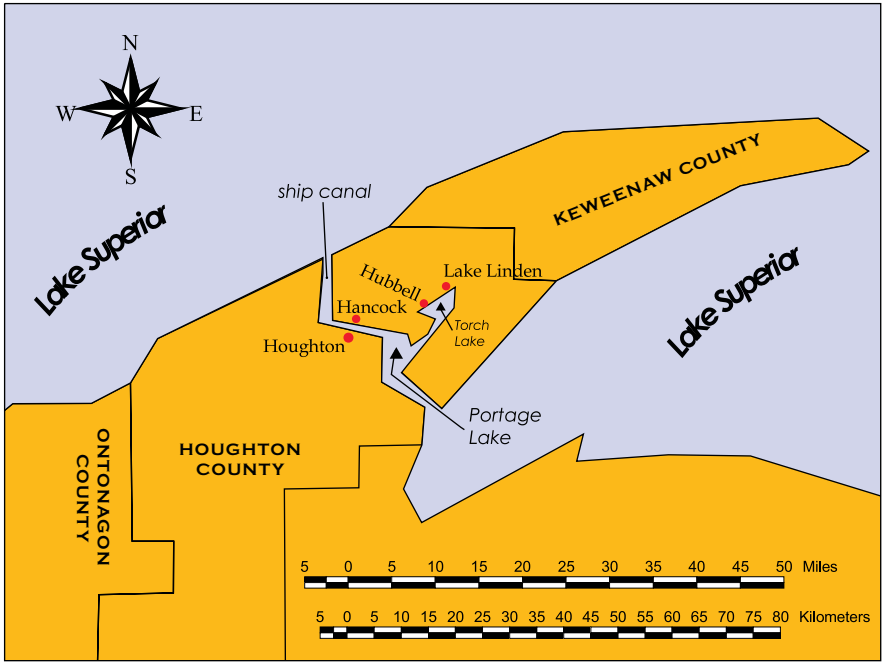
By the early 1930s, copper's price was at all-time lows, which made transport costs proportionately much higher. For North American mining districts—or any mining district—the "element of transportation" has always been important; "most of the major coal and metals mining districts [in North America] could never have developed without their railways" (Francaviglia 1991:73; also see Paul 1963). In upper Michigan's Copper Country however, lake transport was just as important as rail (at least when the lakes weren't frozen), and in fact had been the only option for several decades before the district's connection to the continental railnet in the early 1880s. Water transport during navigation season was a practical necessity for very cheap (yet often very important) bulk goods, above all coal: in 1926, over 40 years after the Copper Country received an external rail link in 1883, C&H's president wrote the firm's chairman, "the freight on any coal shipped in here by rail would make its use prohibitive" (James MacNaughton to R.L. Agassiz, 12 November 1926, C&H/175/13). In comparison, outbound copper had a high enough value to pay its rail freight (see Chart 2).

Map 1 – The Great Lakes of North America



Having multiple transport options for at least part of the year also provided an important control on the freight rates charged to extractive capital: during the Great Lakes' navigation season, usually May-December, competition from cheaper lake shipping forced railroads to keep their prices down (Barry 1973; Thompson 1991), especially when combined ownership of railroads and lake shippers was prohibited in 1915 (Kennedy 1991:148–49; EMJ 1915). However, when the lakes froze in winter, railroads serving Michigan's Upper Peninsula (U.P.) would raise their rates. This practice became a serious point of contention in the 1910s, when Detroit and Chicago manufacturers supplied by U.P.-mined copper inputs lodged two complaints with the Interstate Commerce Commission (ICC). In both cases, the ICC ruled the railroads had a right to charge seasonally-variable rates, due to the relative lack of other goods shipped from the Copper Country, and copper's relatively high value (ICC 1913a:357–63, 1913b:415–16). Not just a regulator of transport capital, the ICC would become even more of an institutional mechanism of core-periphery economic relations following the 1920 Federal Transportation Act (Skowronek 1982:282–83). In the wake of that legislation (which followed a period of federal control over the railroads that oriented the ICC to the prerogatives of railroad capital; Hoogen-

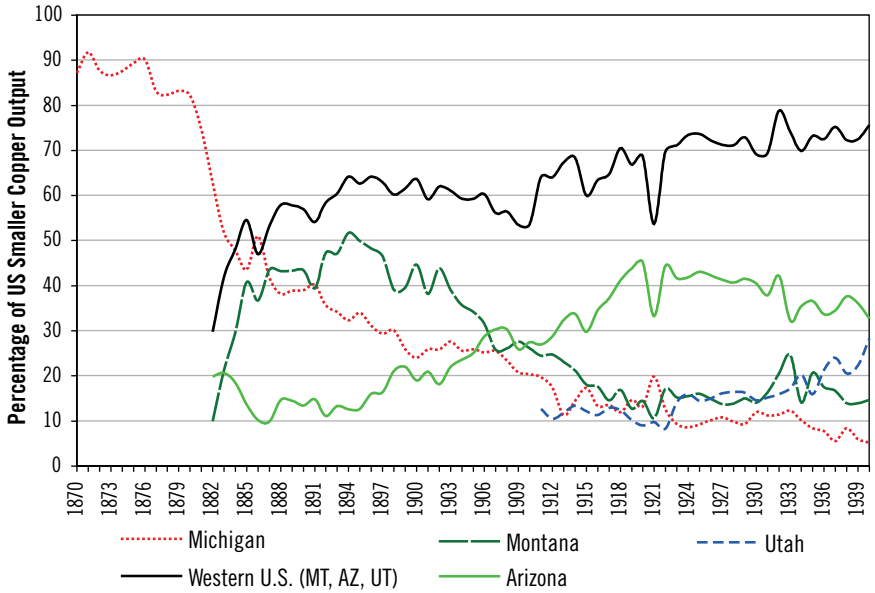
Map 2 – The Copper Country's Main Ports



boom and Hoogenboom 1976:84–94), the ICC became more inclined to accede to the railroads' prerogative to charge higher rates based on the "value-of-service," i.e. charges were based on the value of the goods being shipped. For the railroads, this was a long-standing practice, entailing the cheaper shipment of unprocessed raw materials than manufactured goods over longer distances, "causing manufacturers to locate factories away from raw materials" (Hoogenboom and Hoogenboom 1976:55–56), hence a mechanism of regional underdevelopment within the U.S., since it provided economic justification to ship unprocessed raw materials from peripheral extractive regions to core regions (also Pred 1965:172).

The ICC's basic reasoning did not bode well for C&H's own later efforts to secure lower freight rates. The practice of setting rates according to value of service (or what the traffic will bear) rather than the cost of service meant in reality that the higher a commodity's value relative to its volume, the higher the freight rate charged, because transportation made up a lower proportion of the commodity's eventual cost (McPherson 1912:222, 231; Ripley 1923:166, 169–71; Hoogenboom and Hoogenboom 1976:102). Allowing railroads to profit in this way was a means to promote their growth, which helped tie the U.S. core

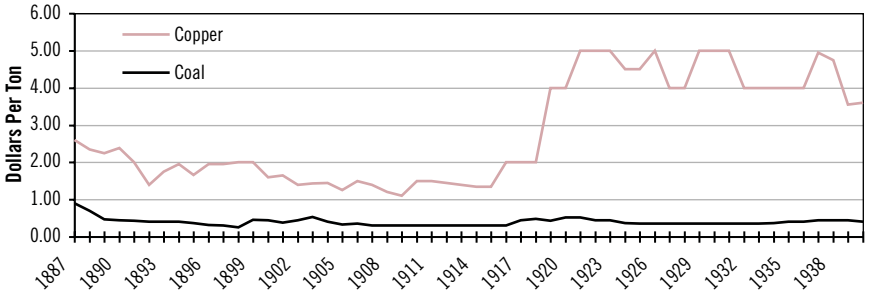
Chart 1 – Share of U.S. Smelter Copper Output, 1870–1940



Sources: Gates 1951: 204–05; Weed 1912: 23, 1917: 152, 1923: 161; Rothwell; 1893: 109, 1897: 202–03, 1900: 158; Newland 1904: 74; Fay 1911: 149; Johnson 1929: 132; Barbour 1935: 121, 1941: 136.

regions to the internal peripheries, one of the keys to the initial U.S. ascent up the world-system hierarchy (Bunker and Ciccantell 1999:109, 116). The arrangement also kept transport costs low for raw materials, which in turn ultimately let U.S. industry keep its prices down (in part because cheap transport also allowed cheaper food supplies for urban industrial workers, hence lower wages), which is of course a key aspect of competitiveness in the world-economy, especially for aspiring ascendants (Bunker and Ciccantell 1999:108; Chase-Dunn 1989:174; Ciccantell and Bunker 1998b:7). It is also true, however, that not all firms, sectors, or regions will benefit by such arrangements. It worked well enough for C&H until the early decades of the 20th century. At that point, the firm's production began declining relative to the massive output of its western competitors, who could provide the necessary tonnage to the railroads, satisfying the imperatives of transport capital to fully utilize its rolling stock in bringing peripheral resources a longer distance to the U.S. core region, that "belt of country aligned more or less along a New York City-Chicago axis" (Meinig 1978:1198), as well as Boston to Baltimore—and this at a time when the U.S. state was pursuing autarchic policies as the liberal world trading order decayed,

Chart 2 – Freight Rates for Water Transportation of Coal and Copper Between Lake Superior and Lower Lake Ports



Source: Gates 1951: 231

entailing both a sort of proto-imperial expansion (Su 2001:44–47) and a need to maximize resource extraction from internal peripheries.

Indeed, at least up until World War One the U.S. copper market was essentially "self-contained," thanks to very large internal supplies relative to demand (Schmitz 1997:314). Though having acquired several of its smaller competitors in 1924, and still the Copper Country's largest firm in the 1920s, C&H had nonetheless long since dropped from the ranks of the U.S.'s leading copper producers. While the firm prospered during the mid-1920s after difficult post-war years (Gates 1951:150; Benedict 1952:194–99), its production costs had become high enough to impel the firm's managers to secure the lowest possible freight rates for its copper, at least relative to domestic competitors. These efforts actually began in the early 1920s, with C&H attempting to cajole the various regional freight committees—established by the railroads as a means of self-regulation—into rate reductions. The firm also petitioned Michigan's Public Utilities Commission, and repeatedly threatened to bring the matter before the ICC.[1]

[1.] See various correspondence between: C&H vice president/general manager James MacNaughton and C&H president R.L. Agassiz, August 1922–June 1924, C&H 1985/20409/1; C&H traffic manager J.J. Mechlin and Mineral Range Railroad Co. Traffic Manager S.R. Lewis, November 1922–December 1923, and Mechlin to C&H headquarters in Boston, 8 March 1924, C&H/71/40; Mechlin and MacNaughton, January 1923–June 1924 in C&H/71/40, and January 1925–December 1927 in C&H/72/28b; Mechlin to Standing Rate Committee, Western Trunk Lines, 28 August 1926 and Chicago & Northwestern Railroad traffic manager R.C. Kew to Mechlin, 21 December 1926, C&H/72/28b.

After several years, C&H had moderate success in getting lower rates, but these victories proved temporary in light of larger changes in the copper industry and that industry's changing relationship to the railroads during the late 1920s–30s. C&H's later haggling over freight rates with the railroads and lake carriers became part of a larger struggle for market access, as its competitors in the U.S. copper industry transformed themselves into large, integrated, multinational firms. Though this was of course part of a more general evolution of U.S. industrial capitalism and the trend of U.S. ascent toward hegemony in the early twentieth century (Arrighi 1999:228–29; Dowd 1977:230–31), this particular movement was also strongly prompted by the low grade but very large porphyry copper deposits of the southwestern U.S. and northern Chile, which required much larger aggregations of capital to exploit, leading to much larger copper producing firms than previously (Schmitz 1986:399–406, 2000:85–90). Again, in turn within the U.S., the railroads were more likely to offer these very large copper producers comparatively better freight rates than were offered C&H. C&H management was compelled to fight for lower freight rates, but was up against geologically- and technologically-influenced structural change in the U.S. (and generally world) copper industry, which in turn caused changes in copper's North American transport structure to the firm's detriment.

"The Lake Companies May Well View the Situation with Alarm": Consolidation and Vertical Integration among U.S. Copper Producers, 1922–1927

By the mid-1920s, U.S.-based firms were the world-economy's leading copper producers. Prompted by growing demand from a burgeoning electrical industry, U.S. copper firms had passed their Chilean counterparts for the lead in raw copper production, mining half the world's copper from domestic mines by the mid-1890s. United States-based producers cemented their dominance following Swansea's rapid post-1900 decline; by World War One, the U.S. served as the Allies' main copper supplier (Richter 1923:200; Schmitz 1986:394; Newell 1990:92; Morse 1918:74–75; Pettengill 1935:433).

Yet upper Michigan's Copper Country was a relatively minor player by this point, comprising "the most marginal" sector of the U.S. copper industry, if not the world (Strauss 1931). Copper Country production lagged behind the western U.S., and its relative costs were rising (Gates 1951:121; see Chart 1). In 1916 C&H, which also served as smelter and selling agent for several other Michigan producers, sold 160 million pounds of refined copper, basically the same amount sold by L. Vogelstein & Co., an independent dealer. The leading dealers all served firms that mined the massive southwestern U.S. and Andean porphyry deposits, led by the American Smelting & Refining Co. (ASARCO)

with 1,046 million pounds sold, followed by United Metals Selling Co. (597 million), Phelps, Dodge & Co. (247 million), and American Metal Co. (169 million). Combined with the 94 million pounds sold by the other Copper Country firms not under C&H's umbrella, the 254 million pound total still left the Copper Country a distant third to the multinationals ASARCO and United Metals (Richter 1923:200; Weed 1917:160).

U.S. copper production was repeating some of the British producers' experience in the 19th century, with sources of supply moving outward from the home country, along with certain phases of ore processing (Newell 1990; Leitner 2001:381–98), because it was more economical to reduce bulk closer to the mine, especially with the large, lower grade porphyry deposits of the southwestern U.S. and Chile (Schmitz 1986:403, 1997:313; Bunker 1994:442). From the perspective of the individual firms, the size and low mineral grade of a typical porphyry orebody entailed very large capital investments over a long time period. Porphyries were worked as either open-cut "strip mines" or through block caving, which used explosives to break up ore underground; "[t]he net effect of both these [techniques] was to replace selective by non-selective methods of mining, in which all material in the mineralized area was removed, waste as well as metallic ore," which also encouraged smelting to reduce bulk, just as well given porphyry deposits' usually extreme remoteness (Schmitz 1986:403–04, also 2000:85–90; and see Parsons 1933).

Porphyry mining's capital requirements helped make the other major U.S. copper firms—among them Anaconda, Kennecott, Phelps-Dodge, and ASARCO—even larger and more powerful compared to the Michigan firms, led by C&H. Further, within the U.S., the large amounts of mineral produced at the mines, and metal at the smelters, provided the financially strapped western U.S. railroads with lucrative ton-miles. In turn, they granted the western U.S. firms competitive rates to the midwest and east—rates that C&H management saw as unfairly competitive, allowing the western firms relatively cheaper access to manufacturing customers in eastern and midwestern markets. Increasingly marginalized within the industry, C&H was further losing out to its competitors in more remote peripheral regions, who were better able to meet the imperatives of expanded transport capital in bringing raw materials to the core.

Production in Canada and Africa also increased greatly during the 1910s–1930s, leading to global oversupply (Muirragui 1989:77–79; Pettengill 1931:148–51). Commenting on the massive, low-cost African deposits in the Belgian Congo and Northern Rhodesia just then hitting their productive stride, a mining journalist predicted that low production costs would enable these firms to promote demand by keeping prices low, a "new era into which the copper-producing industry has entered," in which "one may reasonably expect that

the…low-cost producers will strive to prevent the price going high enough to retard the growth of consumption of the metal" (Walker 1934:247; and see e.g. Gann 1955:6–8). This was not good news for the higher-cost Michigan producers, already dealing with competition from the low-cost porphyry deposits in the southwestern U.S., besides continuing production from Montana.

More immediate problems loomed for C&H and other Michigan producers when the larger western firms began vertically integrating into fabrication. Detroit had become Michigan copper's major market, but several of C&H's Detroit customers were absorbed by Anaconda and the Guggenheims, and the firm had to focus on Chicago and other "western" consumers. At the same time, while copper prices were generally declining due to global oversupply (Gates 1951:203–06), rail rates in the U.S. began to rise again, particularly on copper: its still relatively high value-to-volume ratio made it an attractive target for regional rate-setting boards, in spite of the metal's declining price.

Earlier rate reductions had prompted Michigan copper firms to market more of their product in the midwest, starting in the early 1920s when Detroit-bound rates were cut 35 percent. The rate cut and orientation toward midwest markets were apparently driven by Detroit's burgeoning auto industry (Gates 1951:150, 264n.30), which "accounted for an increased use of copper" in general (Schmitz 1997:323). C&H first contracted with the Ford Motor Company in 1925, which by 1928 was using 30,000 pounds a day and 600,000 pounds per month of C&H's copper (see Agassiz to MacNaughton, 28 November 1924, and MacNaughton's reply, 1 December 1924, C&H 1985/20409/1; Felton to MacNaughton, 15 December 1928, C&H/175/15); by December 1927, "the bulk" of C&H's midwest sales were to "Henry Ford," transported by Ford's own boats (EMJ 1927b).

Another motivating factor for C&H's increased midwest marketing was competition from Anaconda and the Guggenheims.[2] By the mid-1920s, both of these latter firms had become *bona fide* multinationals, having steadily grown through vertical integration—part of a more general trend in the copper sector since the late 19th century when mining, smelting and fabricating had all been separate sectors (Schmitz 1997:300). The 1920s were in fact an "era of mergers" between U.S. copper producers, as C&H assistant sales agent Thomas

[2] Yet Gates (1951:150) writes: "Throughout [the 1920s] Calumet and Hecla evidently played the game fairly much according to rules laid down by the giants of the day: Kennecott [i.e. the Guggenheims], Anaconda, and Phelps-Dodge."

Burghardt termed it in a March 1928 memorandum to board chairman R.L. Agassiz. Burghardt marked the era's start in 1922, when Anaconda purchased the American Brass Company, "the entrance of the producer into the fabricating and manufacturing end of the business on an enormous scale" (Burghardt to Agassiz, "Re: Combinations in the Copper Industry," p. 1, enclosure with Burghardt to MacNaughton, 23 March 1928, C&H/175/17). According to another contemporary observer, this purchase "represented the most important instance in the whole history of the American copper industry of vertical integration beyond the stage of production of raw refined copper" (Richter 1923:203).

Up until this point, vertical integration was fairly unknown among U.S. copper producers. Regardless of specific variety, copper's general physical characteristics, namely low bulk and raw homogeneity, dictated against fabrication by producers near the mines. In the words of a copper industry analyst:

> It is characteristic of most branches of the non-ferrous metal industries that the producers of the raw material should not engage in fabrication except of rather simple types. Tonnages are so much smaller than in the iron and steel industry that, apart from other technical factors, this circumstance would make the erection of a fabricating plant, except for some simple product like wire, less attractive or desirable than in the steel industry. The extreme homogeneity of raw copper…makes the final stage in the production of raw copper much more of a mass production operation (Richter 1927:715; also see Hildebrand and Mangum 1992:32).

This same homogeneity had kept the U.S. copper market highly competitive (even with small numbers of sellers and buyers) with very few independent dealers in between, and almost all refined copper going directly from producer or sales agent to consumer or manufacturer (Richter 1923:196–98, 210; also see Ingalls 1912).

The continuing wave of mergers and acquisitions saw the Guggenheims follow Anaconda (to which they sold control of the Chile Copper Company) in expanding their sheet milling operation, the Baltimore Copper Smelting & Rolling Company, into a rod and wire plant in 1923. Independent wire and cable companies engaged in a series of mergers among themselves during the mid-1920s, resulting in the fall 1927 formation of the General Cable Corporation, "a group which is second only to American Brass Company in volume of copper consumption, and in which the Guggenheim interests predominate" (Burghardt to Agassiz, enclosure with Burghardt to MacNaughton, 23 March 1928, C&H/175/17). Anaconda subsidiary American Brass then absorbed the Detroit Copper & Brass Rolling Mills, one of the plaintiffs in the 1912 ICC lawsuit over seasonal copper freight rate differentials (see above); up until its

absorption, Detroit Copper & Brass had been one of C&H's major customers (see Mechlin to MacNaughton, 9 November 1923, C&H/71/40). C&H executives received further bad news when Chicago's two independent wire firms merged: the new firm purchased much of its rod supply from Anaconda, with which it was "said to be on very friendly terms." By 1927, an industry analyst was able to write that "[t]he Anaconda Copper Mining Company is now more fully integrated…than any other organization in the non-ferrous metal industry of the United States" (Richter 1927:693). The following year, Burghardt summed matters for Agassiz:

> within the past few years, and particularly last year [1927], we have seen the very cream of the American copper consuming industry, either through acquisition or close working agreements, pass into the control of the two great producing interests—Anaconda and the Guggenheims…The Lake companies may well view the situation with alarm (Burghardt to Agassiz, pp. 2–3, enclosure with Burghardt to MacNaughton, 23 March 1928, C&H/175/17).

In other words, having avoided vertical integration due to copper's general physical characteristics, and aided in this choice by upper Michigan's initial *relative* remoteness from the U.S. core region (see Lankton 1997) and the firm's reliance on cheap transport, C&H management now found itself in a bind when its competitors—who were even more remote from the main U.S. core regions, but were larger firms due to their own particular geologically-driven capital requirements—started integrating, and then taking over its market. Burghardt warned his superiors:

> For our own company, producing as it does over two-thirds of the output of the district, it would seem vitally important to take immediate steps to safeguard our best market, which is the Middle West. For several months past this market has been gradually narrowing, not because of lack of business there, but principally because of the combinations which operate against us. We have already seen Anaconda attempt to dictate the price at which we may sell them copper at Detroit, and on our refusal to meet their views we have seen this business lost to us. It may not be long before General Cable will tell us what price we must sell them copper at Chicago and St. Louis. These three plants can easily account for one-half of our output, and if they should all be lost to us we may be forced far afield to market our full production (Burghardt to Agassiz, pp. 3–4, enclosure with Burghardt to MacNaughton, 23 March 1928, C&H/175/17).

However, Burghardt argued that going "far afield" was not a viable option. Despite extensive efforts by C&H earlier in the decade, rail freight rates on eastbound copper had risen significantly, and C&H could not undercut the east coast's electrolytic refineries low enough to offset the relatively high freight

rates its own refined copper incurred over those longer distances, thanks to value-of-service pricing. Along with changes in copper's industrial structure came changes in the transport structure, as the railroads re-evaluated the freight rates formerly charged refined copper. Though much closer to the main core regions of the U.S. than its major western competitors, this would actually work against the firm *vis à vis* the imperatives of railroad capital.

"We can compete in the east only at heavy cost": A changing transport structure for Michigan copper, 1927–1929

Indicative of copper's industrial restructuring and changing economic geography, eastern U.S. railroads actually raised their rates on refined copper shipped within the core, from east coast refineries to midwestern manufacturing points. Detroit's rate per 100 lbs rose from 25 to 31 cents; Pittsburgh's from 25 to 27 cents; Chicago's from 32 to 40 cents; "and similarly to other points," while certain east coast manufacturing points received rate reductions.[3] As a result, C&H and other upper Michigan producers were compelled to give up most of their eastern customers. According to C&H's Burghardt: "Our normal market is in the West [i.e. midwest], and we can compete in the East only at heavy cost to ourselves in the matter of freight and price" (Burghardt to Agassiz, 23 March 1928, enclosure with Burghardt to MacNaughton, 23 March 1928, C&H/175/17), though conversely, high rates in the other direction gave C&H's midwestern markets some protection from eastern electrolytic refineries.

Indeed, all copper producers faced potentially higher freight rates, despite calls for cooperation between miners, smelters, and railroads, in order for all sides to maintain profitable levels of production (e.g. EMJ 1926). In June 1928, C&H's Mechlin noted a proposal docketed before the Central Freight Association (CFA) that would eliminate refined copper's special commodity rate "from and to" points in CFA territory (lower Michigan, Ohio, Indiana, most of Illinois, and far western Pennsylvania and New York). Mechlin believed this new proposal was "an entering wedge to raise the rates on copper throughout the entire country," and warned that during C&H's efforts to achieve lower freight rates earlier in the decade, copper's high value relative to its volume made certain rate setting authorities on the regional freight committees think copper's rates were too low "as compared to the rates on iron and steel…[and] should be

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3. At the same time, midwestern firms were allowed to deduct 10 cents more (32.5 vs. 22.5) than east coast firms, due to "loss of interest on the value of copper in transit" (EMJ 1927a).

higher" (Mechlin to MacNaughton, 11 June 1928, C&H/72/76b). Though an important raw material, copper was not as vital to industrial production as iron and coal, nor was it consumed in as great quantities (and would soon be facing competition from aluminum as well). Within the political bloc of U.S. industrial producers, the main bearers of core interest in the U.S. political economy at that point, copper had been one of the junior partners to iron and steel (Leitner 2000:492), but copper certainly did not generate the traffic that those bulkier materials did. Nor, for that matter, did copper's producers (or consumers) have the political clout commensurate with iron and steel's economic importance.

C&H's lake shipper, the Great Lakes Transit Corporation (GLTC) was also reconsidering the rates it charged for copper. Though C&H had a portfolio investment in the GLTC, it was managed according to the prerogatives of transport capital, regardless of C&H's imperatives (see Mechlin to GLTC freight traffic manager F.A. Stanley, 27 June 1925, C&H/72/28b; and minutes of C&H Board of Directors meetings, 17 April 1922 and 12 April 1923, C&H 1985/29). During the 1929 navigation season, C&H management began worrying about delays related to GLTC's other commodity freights (see L.J. Brogan, GLTC general agent in Houghton, to Mechlin, 5 July 1929, enclosure with Mechlin to MacNaughton, 8 July 1929, C&H/73/54), though the GLTC's local Houghton agent confided in Mechlin that his firm "appreciate[s] the volume and regularity of our business and will do what they can to keep us satisfied" (Brogan to Mechlin, 5 July 1929).

Nonetheless, just a month later Mechlin complained to GLTC president J.C. Evans in Buffalo, expressing C&H's insecurity about copper's place in the larger Great Lakes shipping trade, at the time still very much a major crossroads of the U.S. industrial economy: "We are very much of the opinion that our tonnage is being considered as entirely non-competitive and that competitive tonnage at the head of the Lakes is being given preference over our shipments during this entire present season" (Mechlin to Evans, 8 August 1929, C&H/73/54). Such was the potential catch-22 in transporting a non-bulk, relatively high value commodity, yet one not as valuable as a precious metal: it did not supply the tonnage that lake carriers needed to keep their own equipment in full use, and because it did not have the value of a precious metal, it still could

4. The U.S. Army Corps of Engineers classified copper not as bulk freight, but rather as "package" freight, "such items that are sacked, bundled, cased, or otherwise assembled, and manufactured products handled individually." Accordingly, the GLTC was not actually considered a bulk carrier, but rather a common-carrier package and passenger line, though it was also carrying grain (U.S. Army Corps of Engineers 1937:395–97, 424).

not impel a carrier to take it directly to market.[4] While copper may have been less important than iron and coal to the U.S.'s standing as a core economy (as well as within the Great Lakes' regional transport economy), C&H was becoming further marginalized within the copper industry as well.

However, any considerations by C&H to move away from lake shipping during the navigation season were likely made with some pause, because the necessity for cheap transport had become greater than ever—losing the Detroit market to Anaconda forced the firm to concentrate on Chicago and downstate Illinois customers (see Burghardt to MacNaughton, 9 March 1927, C&H/ 176/1). C&H's Burghardt elaborated on this option in his March 1928 strategy memo (see above). He offered a number of variations, perhaps boldest of which was to "[f]ollow the lead of Anaconda and Guggenheim, and acquire manufacturing facilities of our own." He also suggested more formalized supply arrangements with Chicago-area manufacturers that were already purchasing C&H's copper; at the other end of the spectrum, he suggested C&H could supply Anaconda's manufacturing subsidiaries in Detroit, Chicago, and St. Louis with fixed tonnages at fixed prices (Burghardt memo to Agassiz, 23 March 1928, enclosure with Burghardt to MacNaughton, 23 March 1928, C&H/175/17).

Though C&H board chairman Rodolphe Agassiz was in favor of Burghardt's vertical integration plan in order to insure a guaranteed purchaser (Agassiz to MacNaughton, 18 November 1925, C&H 1985/20409/1), the firm's president was less sanguine about integration into manufacturing, at least after the 1929 stock market crash. He wrote C&H sales agent C.C. Felton: "The fabricating plants will buy from their 'relatives' and we shall have a hard time disposing of our product. On the other hand, we have not assurances of enough volumes or enough life to warrant us at this time going into fabricating" (MacNaughton to Felton, 3 May 1930, C&H/175/15).[5] C&H senior management chose to expand their Chicago base, making it the firm's new primary market: by the fourth quarter of 1928, 37 percent of C&H's refined copper rail shipments went to Chicago, with an additional 20 percent going to other Illinois points and St. Louis; less than 15 percent went to Detroit or other lower Michigan points (evidence presented by Michigan Copper Producers before the Interstate Commerce Commission Rate Structure Investigation, Docket 17000, Part 12, Non-Ferrous Metals, C&H 1979/35/Item 1000).

5. C&H finally acquired manufacturing facilities in 1942, but in Detroit, not the Copper Country (Benedict 1952:206).

"Geographical position has entitled us": Competition between extractive firms over rail freight rates to the core, 1929–1931

Located on Michigan's Upper Peninsula, C&H found itself located in the Western Trunk Line (WTL) territory, which had generally higher rates. The WTL was one of five rate territories (including Eastern/Official, Southern, Southwestern, and Mountain-Pacific), all of which had differing rates. In general, however, Eastern territory had significantly lower rates on manufactured goods than the other four territories, which charged lower rates for bulk goods (Hoogenboom and Hoogenboom 1976:138). Starting in the 19th century, this basic structure was centered on Chicago, the traditional dividing point between the peripheral, generally agricultural west (as was the south) and the eastern industrial core, with typically lower rail rates on eastbound freight due to greater competition between railroads (and lake carriers) in the east than the more sparsely populated west, whose cargo also tended to be lower-value bulk commodities (Cronon 1991:83, 86–87). "The development of rate bureaus and of ICC-rate regulation in the twentieth century organized, institutionalized, and fixed these patterns into a rigid system" (Hoogenboom and Hoogenboom 1976:139).

Nonetheless, C&H's Mechlin made repeated attempts to secure lower rail freight rates in the late '20s and early '30s, because the firm still depended on rail the five or six months each year the Great Lakes were frozen. Though an extractive firm in a peripheral region (the U.P. of Michigan, but also the WTL more generally), C&H tended to side with industrial core interests on general freight rate policy. The 1920s had seen a general movement by industrial interests against the prevailing rail freight rate structure, prompted by the 1920 Federal Transportation Act (FTA) and the pro-agriculture 1925 Hoch-Smith Act. The 1920 FTA was a regulatory adjunct to the U.S. rail system's reversion to private control after World War One, and made the Interstate Commerce Commission (ICC) "the authoritative voice of the federal government on the national transportation system," with more power than in its ineffectual pre-war years (Skowronek 1982:282; also Kennedy 1991:163; Hoogenboom and Hoogenboom 1976:1–83; Kolko 1965:45–126).

The FTA gave the ICC greater rate making power, allowing it to set both minimum and maximum rates. Further, protecting railway interests via allowing a "fair return" of 5¾ percent on investment became as important as protecting rail consumers had been in preceding decades. Per Skowronek, "[t]he ICC was charged with considering the nation's need for adequate transportation services" (1982:282–83). Whatever the increase in regulatory control, the railroads

were now allowed to pool traffic, engage in mergers, "and create a consolidated system of regional railroad corporations" (Kennedy 1991:167). Five years later, when Hoch-Smith was passed to relieve the U.S.'s depressed agricultural sector of high rail freight rates, the railroads responded by raising rates on industrial customers.[6] In opposition, C&H's Mechlin asserted that Hoch-Smith would help farmers "at the expense of other industries which would have to pay increased rates to offset the lower classification given to agriculture" (Mechlin to MacNaughton, 26 June 1925, C&H/72/28b).

Though Mechlin saw C&H as aligned with industrial core interests on Hoch-Smith, the firm's own relative decline put it at odds with other firms in its own sector. While industrial complaints about freight rate structures led to an extended ICC investigation, the emergence of the integrated, large multinational copper firms prevented formation of a "united front" of copper producers on rail freight issues, as Mechlin complained in 1929; indeed, C&H had spent the early and mid-1920s trying to secure lower rail freight rates on its own. Copper's value was a further problem, which could hamper any chance at significant rate reductions, Mechlin informed his boss: "The most difficult argument we will have to meet is the value of our commodity as it effects [*sic*] the responsibility of the carrier in handling this traffic and unfortunately our part of the investigation comes at an inopportune time as far as the market price of copper is concerned" (Mechlin to MacNaughton, 13 March 1929, C&H/73/54). Inconveniently enough for any rate reduction case, as Mechlin was well aware, 1929 saw copper's highest average price since the war, 24 cents per pound, with an average price for the year at 18.1 cents, highest in a decade (Herfindahl 1959:103; Gates 1951:205). However, the stock market crash the following year took the copper market down with it. An industry-wide downward trend, driven by the general business slowdown, along with expanded refinery capacity in Canada and Europe and expanded mining in Canada and Africa (Richter 1931:18; Pettengill 1935:436), helped drop Michigan copper's price from 18.1 cents per pound in 1929, to 13.0 cents in 1930, and 8.1 cents in 1931, before bottoming at 5.6 cents in 1932 (Gates 1951:157–61, 205).

Further, freight rates were still a bone of contention within the U.S.—per the Hoogenbooms' study, "[t]here were thousands of specific rate cases in the 1920s" (1976:100)—and C&H management was still very concerned about western producers entering the firm's traditional midwest market, courtesy of dif-

6. However, new "[c]ompetition from trucking and airlines closed off the traditional trade-off of agricultural service losses for high rates on more valuable freight" (Miranti 1989:11).

ferentially low rail freight rates. Rate differentials were the western railroads' way of generating traffic, and of course also helped tie a burgeoning source of resources in an internal periphery to the U.S. industrial core. Resource characteristics were an additional consideration, for transport capital as well as extractive firms: again, coming into the 1920s Michigan copper producers faced serious competition from the low grade porphyry copper producers in the southwestern U.S., particularly over freight rates, though the porphyry deposits had actually started coming online in 1904 (Schmitz 2000:87), producing large amounts of both ore and refined copper (see Chart 1).

Phelps-Dodge, itself an initial victim of the 1920s copper industry consolidations, still controlled large porphyry mines in Arizona and New Mexico, and proceeded to establish an electrolytic refinery in El Paso, Texas. The firm already owned its own local spur-line railroads, purchased to ensure service from the main transcontinental roads to its mines and smelters (Whitten 1983: 173). According to Phelps-Dodge's corporate biographer, El Paso's selection was "amply justified," the city having "[e]xcellent railroad facilities, reasonable proximity to the Pacific Coast, an abundant labor supply, and a central location with reference to the Phelps Dodge and other large copper mines and smelters of the Southwest" (Cleland 1952:222; also see Robbins 1994:32). C&H's Burghardt agreed: he warned company chairman R.L. Agassiz that the El Paso refinery "will save [Phelps-Dodge] the cost of shipping blister [copper] to Atlantic seaboard and enable them to have refined copper on the ground for shipment anywhere in the United States without the expense of a back haul from the east" (Burghardt memo to Agassiz, 23 March 1928, enclosure with Burghardt to MacNaughton, 23 March 1928, C&H/175/17).

Two years later, with the El Paso refinery completed, Mechlin informed C&H's president that Phelps-Dodge was shipping an average of 55 tons of copper per rail car into Illinois, Indiana, Ohio, Michigan, western New York, western Pennsylvania, and St. Louis—in other words, C&H's main geographical market. In comparison, C&H found it "impossible to maintain such an average as that of the Phelps-Dodge people [i.e. 55 tons per car] when we have so many orders to complete that call for only 20 or 25 tons." The real problem was not competition *per sé*, which already existed, but the effect on freight rates resulting from tonnage differences. For Michigan producers, part of the problem at this point was that their deposits were well along to being "played out," i.e. past the point of economical mining. Even by 1905, "the Lake Superior mines were working some of the lowest grade ores in the United States, from the deepest mine shafts in the world" (Schmitz 2000:92). For transport capital in particular, the tonnage from C&H was just not there anymore, despite the relatively high per unit value of Michigan's chemically-pure "native" copper. Mechlin

warned that with over twice the tonnage per car, Phelps-Dodge's rail carriers would be earning much more than would C&H's, "a point that the Interstate Commerce Commission examiners can not overlook in their comparison of car mile earnings as between the shipments of copper forwarded from El Paso and those made from the Michigan Copper District" (Mechlin to MacNaughton, 9 May 1930, C&H/73/54).

In a letter to the Copper Country's primary rail carriers to "place ourselves on record…previous to the [ICC's] final hearing in the nonferrous metals case" (Mechlin to MacNaughton, 31 October 1930, C&H/73/54), Mechlin argued that Michigan producers were hurt by competition resulting from freight rate reductions on copper shipped from the southwest (and Canada as well; see Mechlin to MacNaughton 23 and 26 May 1930, C&H/73/54), to destinations in the area bordered by the Ohio and Mississippi Rivers on the south and west, and Pittsburgh and Buffalo on the east. According to Mechlin, these points were "destinations where the Michigan copper producing district in the past has held a not entirely unfavorable position with rates to which it's [*sic*] geographical position has entitled us"—in other words, these Midwestern points were C&H's proverbial backyard.[7] However, as part of the U.S. industrial core, they contained industrial firms requiring raw material inputs from wherever they could get them cheapest and in sufficient quantity, not just from Michigan.

Mechlin also asserted that C&H was directly discriminated against "very substantially" on its own east-bound shipments, into "Trunk Line and New England territory,"[8] the initial U.S. core region (cf. Meinig 1978:1198; Meyer 1983). Again, the perceived rate discrimination was exacerbated by the Copper country's high mining and refining costs. Mechlin insisted that rates on refined copper from the Copper Country "be lowered to a basis comparable with those of our competitors…which will restore a proportionate geographical balance" to

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7. Indeed, the following year Mechlin reported to MacNaughton that southwestern copper producers tried to make inroads into C&H's literal backyard, when southwestern railroads had applied for through rates to ship Arizona copper to Dollar Bay in the upper Michigan Copper Country, where the Trenton, New Jersey-based firm Roebling & Sons had a wire mill, which otherwise used C&H's copper for raw material; see Mechlin to MacNaughton, 9 October 1931, C&H/74/11a.

8. Trunk Line Territory included most of New York and Pennsylvania, except for their far western parts; most of West Virginia, the northern half of Virginia, New Jersey, Delaware, Maryland, and Washington, D.C. New England included its ostensible six states, as well as part of Quebec, and New York east of the Hudson (McPherson 1912).

the U.S. copper market. He warned that C&H was "prepared to support and defend [the proposed rates] if need be to the various carrier rate committees, or State and Federal Commissions," if the railroads in question did not take the matter to the regional freight committees (Mechlin to Duluth, South Shore & Atlantic Railway and Mineral Range Railroad traffic manager S.R. Lewis and Copper Range Railroad general manager G.H. Wescott, 29 October 1930, enclosure with Mechlin to MacNaughton, 31 October 1930, C&H/73/54).[9]

C&H's rail carriers dutifully submitted the request to the pertinent regional freight associations, the Western Trunk Line (WTL) and the Central Freight Association (CFA). As it had throughout the 1920s, during C&H's earlier efforts, the WTL's Standing Rate Committee issued an adverse report (see Mechlin to MacNaughton, 24 March 1931, C&H/74/11a). Its economic geography largely explains why: it covered the area between the Rockies and the Mississippi River, and also included Wisconsin and Michigan's U.P., a service area that was still mostly peripheral in terms of economic activity and general place in the world-economy; as a result, the average WTL railroad was financially worse off than the CFA roads. In other words, western railroads traveled longer distances between points, through emptier and less industrialized territory that generally did not yield "a fair return" on investment, as the ICC termed it (ICC 1935:613; also see McPherson 1912). Since copper producers were among the few major industrial enterprises in the western U.S., they were treated as favored customers by the western railroads, because their cargoes provided both tonnage and value, the ideal of transport capital, which can usually only expect one or the other from a given commodity. Covering the more heavily industrialized eastern portions of the U.S., the CFA was in turn more understanding with C&H's application. Further, according to Mechlin, the CFA did not have much choice in the matter because other copper firms had also been granted lower rates, and it would be compelled to do so for C&H (Mechlin to MacNaughton, 6 April 1931, C&H/74/11a).

And even though the ICC established new "class rates" late in 1931, under which "every destination will be made to bear it's [*sic*] fair share of railroad freight burden in line with the length of haul and service performed"—as Mechlin approvingly informed MacNaughton (16 November 1931, C&H/74/11a)—the CFA then changed its policy toward C&H, and began bringing generally negative decisions against the firm that very year (see Mechlin to MacNaughton, 6 October 1931). The CFA was instead granting more favorable rates to Montana copper producers, charging them less for copper rods than the Michigan producers were being charged (see Mechlin to Brunck, 7 December 1931, enclosure with Mechlin to MacNaughton, 7 December 1931, C&H/74/11a). Here again we see the imperative of transport capital in conjunction with the core-periphery dynamic within the U.S.—i.e. the railnet expanded to bring raw materials from further away on the continent to the northeastern and midwest core, which meant railroads had a great deal of expanded capacity to utilize in terms of tracks and rolling stock (and concurrently larger capital expenses to amortize), and therefore had an even greater prerogative to give lower rates to those producers whose commodities both had to be carried a greater distance (helping utilize track) and could provide greater volumes of those commodities (helping utilize rolling stock). By the 1930s, the western U.S. copper producers' output far outstripped Michigan's, as well as being much further away from the industrial consumers of copper, so were more attractive customers on balance, and were granted lower rates. Raw materials producers in the "older" internal peripheries, closer to the core, were therefore at a disadvantage relative to producers further away, at least *vis à vis* rail freight rates. Of course, Michigan producers, led by C&H, had the water option on the Great Lakes part of the year, but it was one partly foreclosed by the Great Depression.

[9] Soon after, Mechlin admitted to MacNaughton that at least for some destinations, and at certain stages in the production process, C&H was not really being discriminated against (24 November 1930, C&H/73/54).

"A matter of cold business logic": declining production and lost transport links to the core, 1932–1939

As the 1930s depression wore on, C&H was faced with low copper prices and low copper consumption—problems in part stemming from the productive overcapacity that resulted from new mines and increasing scrap recovery (Gates 1951:146–47; Richter 1931:18; Schmitz 1997:313).[10] As a result, most Copper Country mines were shut down, except on the massive Calumet conglomer-

[10] According to Cochran (1954:352), copper scrap recovery had started in the 1920s, but Richter (1923:197) earlier pointed out that scrap copper had always been an important source of supply, not just because of copper's value, but also because much copper was consumed in recoverable forms. Also see Schmitz (1997:297), who points out that since copper is mostly non-corrodible and used for capital/durable goods, "very little of the accumulated stock of past production [is] completely lost." Freight rates on scrap copper briefly garnered the attention of C&H's traffic manager during the depression; see Mechlin to MacNaughton, 23 November 1932, C&H/74/11a.

ate lode, "too near the end of its life to warrant closing down and subsequent reopening" (Benedict 1952:199; also Gates 1951:161–62). Again, decreased output was another potential bone of contention between an extractive firm and transport capital, for water as well as rail: C&H had drastically cut production—yet was still operating at a loss (Benedict 1952:199–205; Gates 1951:161–63)—and generating enough cargo to attract the GLTC had become an even bigger concern for its traffic manager, who at one point wrote that "[w]e hope to have sufficient tonnage so that we will be able to have a boat come into our dock for all shipments" (Mechlin to MacNaughton, 10 June 1931, C&H/74/11a).

As a firm located in a now-declining extractive periphery (and with overall reduced demand, at least temporarily), C&H faced losing regularized transport service to its customers in the core regions of the US. As was essentially the case for the metals industry in general (EMJ 1926), the Copper Country's economy was supported by a surprisingly fragile dynamic between mining, smelting, and transport. If production was cut back due to high costs and depressed markets, then both rail and water carriers would have less incentive to include the district on their routes, leading to even higher production and transport costs, and increasingly restricted market access for minerals producers, particularly in a region that was still considered geographically marginal, as well as peripheral within the world-economy. C&H's traffic manager articulated the potential loss of market access via restricted transport options to the Central Freight Association: "I can safely say that the closing down of these mines would mean the end of one railroad company's existence and the closing down of a 63 mile branch of another," because metal mining and smelting was the only significant freight producing industry in the Upper Peninsula—per Mechlin, "there is no other industry at present than that of mining to warrant the continuance of railroad services."[11] Of course, C&H could always rely on water, should rail be discontinued or raise its rates too high, "although the service would not be as regular or convenient" (statement to Smelter Products Committee, Central Freight Association, 13 January 1932, enclosure with Mechlin to MacNaughton, 18 January 1932, C&H/74/11a).

Not as regular or convenient, indeed: hence Mechlin's uncertainty *vis à vis* the GLTC, which evokes a sort of poignancy. As further evidence of C&H's lesser position among the GLTC's customers, its copper was not shipped directly eastbound after being loaded at its Copper Country docks. Rather, its

[11.] Indeed, by 1937, bankruptcy overtook the Duluth, South Shore & Atlantic Railway, the main rail line on the Upper Peninsula (DuLong, n.d., http://habitant.org/dssa/chrono.htm; also see Mechlin to MacNaughton, 13 April 1933, C&H/74/44).

copper first went westbound to Duluth, a condition C&H grudgingly acceded to (see Mechlin to MacNaughton, 10 June 1931, C&H/74/11a; and see Map 1). Still, the firm's minor dissatisfaction about its copper's roundabout trip grew significantly over the following two years (see Mechlin to MacNaughton, 9 June 1933, C&H/74/44), as the need to minimize transport costs put C&H even more at the GLTC's mercy. Indeed, the GLTC had a virtual monopoly on water transport from Lake Superior to the lower lakes, one of only nine interlake, common-carrier package and passenger lines on the entire Great Lakes (U.S. Army Corps of Engineers 1937:408, 424).[12]

The Interstate Commerce Commission recognized the various difficulties that metals producers were under in its November 1934 decision on the nonferrous metals rate structure, based on an investigation prompted by manufacturers' protests over Congress' pro-agriculture (i.e. generally pro-periphery) 1925 Hoch-Smith resolution. Though the ICC decided that nonferrous metal ore and concentrate freight rates were "less than [the] maximum reasonable," the Commission also acknowledged "that under present conditions the [nonferrous metals] industry cannot pay any increase in transportation charges" (ICC 1935:325). For upper Michigan copper producers in particular, the ICC also ruled that rail "rates to Midwest points give Michigan copper an advantage over copper from Montana and from the eastern refineries" primarily because water transport options helped suppress rail rates between the Copper Country and other midwestern points, but that while "[t]he rates from refineries to the principal consuming points are not wholly consistent…there is no evidence of undue preference or undue prejudice" (ICC 1935:361).

Despite the ostensible advantage of the lake option, C&H's relations with the GLTC soured after the ICC's ruling, as the firm was continually plagued by GLTC delays and missed pickups during the 1935 navigation season. Mechlin lamented C&H was "usually the victims of any disruption to the [GLTC's] regular shipping schedule," exacerbated by the needs of C&H's new customer base, in turn reflective of an evolving industrial capitalism—by 1935, the firm's copper was "largely used in the production of automobiles," but auto makers were already practicing just-in-time production, "keep[ing] low stocks depending entirely on rapid transit service to keep the assembly lines in scheduled operation." Suppliers were therefore under tremendous pressure to get inputs to the manufacturers on time, as Mechlin was well aware: "If any delay occurs

[12.] The lack of carrying competition on the Great Lakes was largely due to legal restrictions preventing railroads from also owning lake carriers (see above), a fact later bemoaned by Mechlin (to MacNaughton, 29 November 1933, C&H/74/44).

in getting our metal to the manufacturing units and thence to the motor companies, it is obvious that we are sure to suffer permanent loss of business." If the GLTC could not improve its service, Mechlin again threatened to move C&H to all-rail shipments during the navigation season (Mechlin to Noble, 7 November 1935, C&H/74/79).

In trying to assuage Mechlin, the GLTC's Noble expressed appreciation for C&H's recent business (in tonnage terms no less), though he admitted that late in the navigation season his firm's imperative was, per usual for transport capital, "just a question of getting [the ships] around as fast as we can, and mov[ing] all the tonnage possible on each ship." He also pinned C&H's specific complaint on the auto companies' just-in-time production methods, "which probably resulted in the receivers not always being able to anticipate their needs far enough in advance," a matter he was willing to discuss further and hopefully make arrangements to obviate any future occurrence (Noble to Mechlin, 14 November 1935, C&H/74/79). Noble's solicitousness was perhaps motivated by the new competitor to the GLTC's steamboats, motor-driven ships that allowed direct all-water transport to the east coast and its "copper fabricating centers," a potential option that concerned the eastern railroads that took C&H's copper from Buffalo to the east coast. In part, this was also because an east coast copper fabricating firm (Stamford Rolling Mills, in Connecticut) was attempting to secure lower freight rates for C&H's copper "in the belief that they would profit in such an adjustment," though C&H management chose not to clarify matters regarding who was pushing for the lower rate (see Mechlin to MacNaughton, 1 April 1936; Mechlin to E.W. Brunck, assistant freight traffic manager, Michigan Central Railroad Company, 18 September 1936, enclosure with Mechlin to MacNaughton, 18 September 1936, C&H/74/79).

When it looked like the eastern railroads would not agree to a rate reduction, "as any change in [C&H's] rates would disturb the whole nation-wide copper rate schedule," Mechlin suggested to one of his railroad counterparts that unless east-bound copper freight rates were reduced for C&H, he foresaw the possibility of copper fabricating capital flight out of the eastern U.S. and "into C.F.A. or W.T.L. territory where the greater part of Lake copper now reaches its final manufacturing stage," with a resultant loss of tonnage for the eastern railroads (Mechlin to J.D. Switzer, division freight agent, New York Central Lines, 11 June 1936, quoted in letter to MacNaughton, 23 June 1936, C&H/74/79). However, it was the upper midwest rail carriers of the CFA that "refused concurrence" on a lower rate for C&H copper shapes to Connecticut, much to C&H management's "surprise and disgust," since the CFA "had no direct interest" in the rates. As Mechlin saw it, it was a move "taken as a blow" against the GLTC (Mechlin to Brunck, 18 September 1936, enclosure

with Mechlin to MacNaughton, 18 September 1936, C&H/74/79). The charge makes sense when considering that other modes of transport (e.g. trucking, airplanes, motor-driven ships) were cutting into railroads' freight business, which was declining anyway due to the depression (Miranti 1989:12). A consequence of larger trends in the development of the means of transport, C&H got caught between two fractions of transport capital in this instance, further exacerbating their market/core access difficulties.

Depressed business conditions also brought matters to a head with the lake carrier GLTC. Deprived of the lower eastbound rate in 1936, C&H was still considering a motorship contract in 1939 for cheaper all-water eastbound copper shipments. If C&H did so, the GLTC indicated it would in turn have to discontinue its service to Houghton, Lake Linden, and other Copper Country ports (see Map 2), because about three-quarters of the tonnage it transported from the upper Michigan Copper Country came from C&H. Per GLTC management therefore, raising the possibility of discontinuing service "was not offered in the nature of a threat but as a matter of cold business logic." C&H management was steadfast, though Mechlin recognized the GLTC and eastern railroads' prior efforts to lower the rates charged C&H, which were obstructed by the ICC and rejected by the midwestern railroads of the CFA (see above; Mechlin to MacNaughton, 16 March and 17 April 1939; MacNaughton to Mechlin, 5 April 1939, C&H/75/78). Though a peripherally-located supplier of raw materials to the U.S. core regions, other peripherally-located suppliers (chiefly in the western U.S.) could provide transport capital with greater tonnage over longer distances, thereby enabling greater capacity utilization over the increasing distances from periphery to core. Overall, by the late 1930s C&H was still paying more to move its copper by rail into the "Official"/eastern rate classification territory than those producers shipping from the Western Classification territory, particularly when C&H was shipping less than a full carload, which the firm did on "numerous" occasions, at least in part by way of an attempt "to broaden the market" for their copper (Mechlin to MacNaughton, 20 December 1938, C&H/75/42).

The GLTC soon acted on their "cold business logic" and discontinued most direct boat service to C&H's Copper Country docks, effective 31 July 1939 (though it maintained service to the main community of Houghton with "a promise of calling at Hubbell for a minimum of 100 tons"; Mechlin to MacNaughton, 5 July 1939, C&H/75/78). Such were the economics of Great Lakes transport, a genuine constraint for a firm that mined and processed a nonferrous base metal in a remote region. Unlike precious metals, for which "transport costs are a significant, but rarely dominant, consideration; with base metals low transfer charges are a prerequisite of successful operation" (Warren

1973:57)—and certainly make a difference for a firm under larger structural pressures as well, i.e. higher cost mineral deposits relative to its competitors, a changing industrial structure, and a depressed world-economy.

To rephrase, for C&H, copper's value allowed rail transport, especially when water was not available. In contrast, the firm was not able to do the same with coal, a commodity with a much lower value: it had to ship all its coal during the limited water navigation season (Leitner 1998:216–307). However, even when water transport *was* available, copper fell uncomfortably between bulk cargoes, which were dominant on the Great Lakes, and high-value precious metals. Copper, in particular the chemically-pure version mined in upper Michigan, was not really a bulk good, thus did not utilize by itself the amount of cargo space that grain, iron ore, or coal all did—but neither was it so valuable that C&H management could afford not to be concerned about freight rates. The ability to move increasingly larger amounts of decreasingly valuable bulk raw materials was key to the U.S.'s ascent up the world-economic hierarchy, from semiperiphery to core and eventually hegemon, as indeed it has been for ascending hegemonic powers throughout the history of the capitalist world-economy (Bunker and Ciccantell 1999; Ciccantell and Bunker 2002:63–70). The irony for C&H was that it indeed *was* a core firm, in terms of where its initial capital came from, where its directors were based, and the scale of capital investment involved in its operations (Gates 1951), if perhaps not in terms of value-added (since it lacked serious manufacturing capacity until after World War Two, and then it was located outside of the Copper Country). Its primary location however, was certainly not core: a peninsula in the middle of Lake Superior, a relatively "hard" geographic enclave, in which resource extractive capital was plunked down in a "relatively untouched wilderness…using modern technologies and demanding large-scale investments" (Massa 1999:129). The irony for the region was that after nearly a century of Euroamerican settlement and intensive mining activity, the upper Michigan Copper Country was once again a difficult place to reach by boat, as it had been in the 1840s–50s (Lankton 1997:23–36, 46–47; Clarke 1853), certainly undercutting the old linkage theory supposition about resource transport as "the most important…and powerful" backward linkage to further development (Watkins 1963:145).

THE DIALECTIC OF EXTRACTIVE CAPITAL, INDUSTRIAL CAPITAL, TRANSPORT CAPITAL AND NATURAL RESOURCES IN U.S. CORE ASCENT: THE CONTEXT OF C&H'S BIND

Of course, "development," such as it is in peripheral extractive regions, is not always such a permanent thing, even within otherwise core countries (which can at least better meliorate the negative effects; Hanna 1995). Throughout

the 19th century and into the 20th, U.S. mining regions like upper Michigan's Copper Country typically[13] declined as they were "played out" (i.e. extraction became a higher-cost proposition relative to other sources of the raw material), while the means of transport were extended further out to bring raw materials to the northeastern (and increasingly midwestern) core region. This "low-cost transport network was a central part of the United States' rapid industrialization, the key to U.S. ascendance in the world-economy" (Bunker and Ciccantell 1999:116). Of course, this low-cost network benefiting core manufacturing capital entailed increasing investments by transport capital, which had greater and greater capacities that had to be utilized, i.e. the fixed costs that never went away, especially for railroads (Cronon 1991:83–89). The basic dynamic at work during this process was that geographic expansion of the U.S. across North America both drove and was driven by the need to bring resources to the Northeast-Midwest core region and its burgeoning industries from further away while keeping transport rates low, hence an expansion of transport infrastructure—a continuing cycle over the course of world-economic history (Bunker 2003:252). More generally, per Bunker (2003:221), "Industrial economies expand materially while agglomerating spatially," i.e. there is more incentive for capital to invest in areas where capital is already deeply invested (Scott 1995; Meyer 1983); but natural resource inputs then have to be acquired from further and further away.

As we saw above, transport capital plays a major mediating role in getting peripheral extractive resources to core regions, driven by its need to keep said expanded transport infrastructure and capacity utilized to as full extent as possible—*ergo*, lower rates offered to extractive firms that could supply more tonnage, with transport economics in turn derivative of U.S. industrial and geographical expansion (and the nation-state's concurrent ascent up the world-system hierarchy), as much as it helped drive those larger processes. A given firm like C&H was therefore up against the railroads' and lake carriers' basic imperative to ensure as full utilization of cargo space as possible and to maximize the value of those cargoes—and why its attempts to secure more favorable freight rates in the 1920s–30s involved continuous efforts and (per Mechlin) constant alertness to rate changes. Indeed, the imperatives of transport capital are a component in the struggles of other peripheral interests (particularly farmers) in the U.S. in the late 19th–early 20th century to secure more favorable

13. Though not universally; see Freudenburg and Frickel (1994), Frickel and Freudenburg (1996).

rail freight rates (see Farmer 1926; Higgs 1970). These transport capital imperatives at times also worked in peripheral interests' favor, when it was in transport capital's interest to charge producers in peripheral regions lower rates, in order to compete with alternate transport modes such as happened on both the Great Lakes as well as central California (e.g. Magliari 1989); or more likely to generate traffic in agricultural and extractive regions (e.g. Rothstein 1975:275–76; Berk 1994:129–40), such as the favorable rates granted the far western copper producers, which like C&H were core firms operating industrial enclaves in otherwise peripheral regions, but could supply large, valuable tonnages to western railroads (Robbins 1994:32–33, 38, 89, 93, 132–33; more generally, Schmitz 1986, 2000).

At the same time, C&H management also had to deal with copper's changing industrial structure, as the firm's competitors beyond the Copper Country diversified, vertically integrated, and even expanded overseas. Following from Schmitz (1986, 1997, 2000), copper's industrial restructuring was very much a consequence of its physical characteristics, an observation in line with the work of Bunker and his colleagues, who assert that the physical characteristics of natural resources play key roles in structuring the political and economic strategies of ascent within the world-system hierarchy (Bunker and O'Hearn 1993; Barham et al 1994; Bunker and Ciccantell 1995a, 1995b, 1999; Ciccantell and Bunker 2002; Bunker 2003). Dominated at the time by U.S. firms, the copper industry's changing structure was driven by the changes in the physical characteristics of the ores being extracted. Surficially extensive, low grade porphyry deposits became the most important source of copper ore, and the high capital requirements for mining such deposits prompted the creation of bigger firms (Schmitz 1986, 2000; Whitten 1983:175–76).

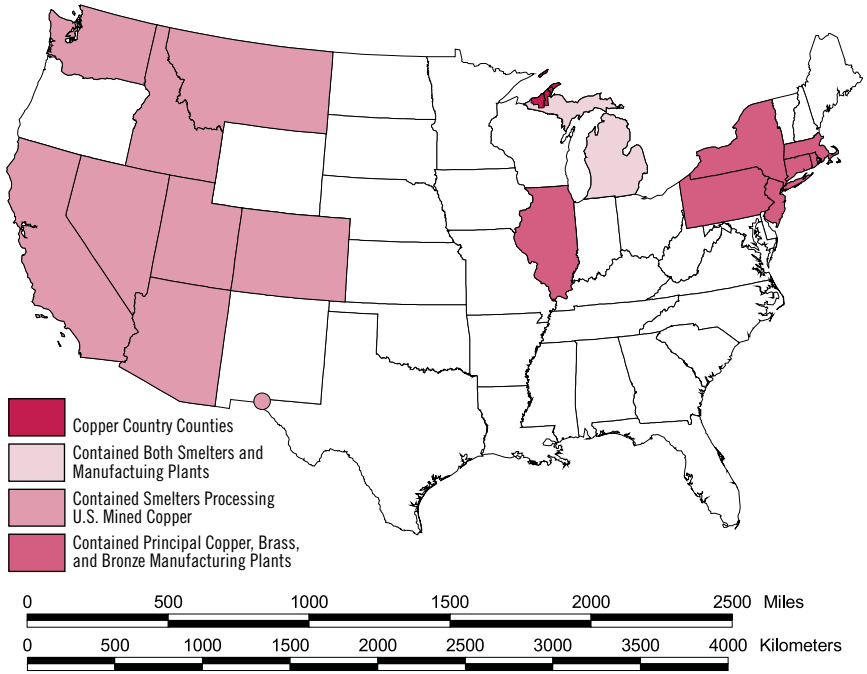
This move to more extensive, lower grade ores than C&H's rare, chemically-pure variety was itself prompted by the U.S. economy's increasing consumption of raw materials in its ascent up the world-system hierarchy, helped of course by the fact that it initially had easy access to these resources in its own internal peripheries (Wright 1990). From the 1890s on, and certainly through the 1920s and '30s, the U.S. was far and away the world leader in copper mining, smelting, and refining (Schmitz 1997:303, 311). Within the U.S., the copper industry's 1920s restructuring was a component of U.S. core ascent, with its domicile firms securing access to a key raw material as older deposits of that material neared effective depletion—a sectoral-level manifestation of the "proto-autarkic" policies pursued by the U.S. (and other core states) in the 1930s, during the interregnum between British and U.S. hegemonies, as the liberal world trading regime collapsed (Su 2001:44–49), as well as contributing to the resource transport dynamic between transformative, extractive, and transport capital.

Though beneficial for purposes of continued U.S. ascent, as well as benefiting the copper sector's leading firms, the industry's restructuring (and accompanying transport cost alteration) at the level of a given firm could well be less sanguine: for its part, C&H was placed at a disadvantage in the marketplace by suddenly losing its key customers, and then being forced to go farther afield for new ones (at higher rates), at the same time as its own copper deposits were depleting and becoming very expensive to extract.

Again, the political economy of transport capital (and more particularly freight rates) during this episode of U.S. world-system ascent were tied in to the need to transport natural resources over increasing distances to transformative firms in the core regions, which necessitated increasing transport infrastructure and further pushed railroad and lake carriers' imperatives for either high volume "bulk" cargoes or very high value cargoes—which in turn made matters difficult for shippers of products that were not quite one or the other. Copper was one of those in-between products, with a value high enough to keep rail freight rates higher than C&H would have preferred, but not high enough to offset the lack of bulk that made it a less desirable cargo for lake carriers. While this made for great contention between C&H and its freight carriers, C&H's struggle to redress perceived rate imbalances was therefore also part of larger internal core-periphery struggles as U.S. industrialization deepened during the early 20th century. The 1925 Hoch-Smith law was a prime example of agricultural interests' struggle against what they saw as growing imbalances in favor of heavy industry, particularly over rail charges, which in turn provoked the industrial sector's grievance. Redress was ultimately a political matter, albeit largely driven by the railroads' narrow economic imperatives. As one historian of U.S. populism put it: "The truth seems to be that there was no such thing as a scientific [freight] rate. Neither railroad managers, nor farmers, nor railroad commissions had any scientific principle to guide them in the matter of rate-making. To point out manifest injustices in certain specific rates was easy. To fix a just rate was difficult" (Farmer 1926:390).

The larger point then is that the political economy of domestic U.S. raw materials transport at this time was a manifestation of the larger core-periphery division within the U.S., which has comprised the U.S. political economy's underlying structure since the mid-19th century, if not earlier (Rubinson 1978; Chase-Dunn 1980; Bensel 1984; Agnew 1987; Dunaway 1996a). While the U.S. nation-state on balance benefited from its internal store of natural resources and the transport systems that carried them to core areas (Wright 1990; Bunker and Ciccantell 1999), the arrangement was less beneficial to extractive regions cast in the role of internal peripheries, often to their long-term detriment. Formally speaking, copper freight rates in the U.S. were designed to facilitate

Map 3 – U.S. State Geography of Copper Smelting & Production, ca. 1935



Source: I.C.C. (1935:324–25)

the movement of raw metal from periphery to core, as were most raw material freight rates. In its decision on the nonferrous metals rate structure, the I.C.C. (1935:324–25) pointed out that except for Michigan, the smelters producing raw copper from U.S. ores were "all located west of the 105° meridian in Montana, Idaho, Washington, Utah, Colorado, Nevada, California, …Arizona, and at El Paso, Tex.," while 95 percent of this copper was then consumed east of the Mississippi River, where the "principal [copper, brass, and bronze] manufacturing plants" were located in the states of Connecticut, Massachusetts, Rhode Island, New York, New Jersey, Pennsylvania, Michigan, and Illinois (see Map 3).

For C&H in particular, the commodity frontier (cf. Moore 2000) for copper in North America had quite literally passed it by, with the major producers now well to the west; it was left as a high-cost producer not far from the U.S.'s main core regions (indeed within a state that also had copper consuming firms), but too close and not producing enough to get the kind of freight rate price breaks offered its western competitors—and the largest of which were integrating via

acquisition of those in-state Michigan copper consumers as well. For the copper industry in general, its 1930s geographical structure within the U.S. mirrored the contemporaneous global core-periphery structure of copper producers and consumers, with several countries as major mineral producers (Chile, Canada, the African copper belt) and several as major consumers (led by Britain, Germany and France), while the U.S. was *both*—"a largely self-contained copper market" (Schmitz 1997:314), whose core regions could draw on domestic supplies in internal extractive peripheries.

Transport capital, particularly rail, was therefore a key agent of incorporation, hence peripheralization, tying resource-rich regions to the core; and transport policymaking and administrative decisions about freight rates on balance favored the U.S. industrial core, at least up through the 1940s (Kennedy 1991; Berk 1994; Hoogenboom and Hoogenboom 1976:141–42)—or as a leading Roosevelt administration official put it, "the 'freight rate structure was planned to clinch the industrial supremacy of the North and East'" (Harry Hopkins, 1938, in Hoogenboom and Hoogenboom 1976:140). The 1925 Hoch-Smith Act was arguably an exception, in that peripheral agricultural interests were favored. Though C&H cast itself with the industrial interests against Hoch-Smith, it might have been better off under a rail freight regime that was more favorable to peripheral interests—the railroads' structural imperative for maximizing throughput led them to favor core customers that offered either larger or more valuable cargoes, often at the expense of peripheral and/or smaller customers, like farmers and "small town manufacturers" (Kennedy 1991:159–60). C&H's main lake carrier, the GLTC, operated by similar criteria, and placed greater priority on the large grain dealers at Duluth who could supply more overall business. Though C&H was certainly not a small firm, it was considerably smaller than its chief competitors based in the western U.S., large copper producers who were valued customers for western railroads. Its relatively small size and its increasing operating costs meant that C&H was left behind by the working out of the contradictions between scale and space in the burgeoning U.S. industrial economy, i.e. the ever-greater need for both raw materials and the economies of scale required to transport those raw materials cheaply—which in turn "drove further scale increases in consumption of raw materials, reiterating the contradiction anew" (Bunker 2003:252).

Yet while opposed to a pro-agriculture measure like Hoch-Smith, and funded by capital from the core region of the northeastern U.S. (Gates 1951), C&H's struggle for lower freight rates in the 1920s and '30s bears greater resemblance to that of a peripheral actor. More accurately, we could speak of C&H as a core firm that found itself trapped in a peripheral region, ironically facing some of the same exploitative practices *vis à vis* freight rates on its products

that characterize core-periphery transport transactions, particularly regarding rising core economies that manage to keep their overall raw material costs low at the expense of their raw material supply peripheries (Ciccantell 2001: 62; Ciccantell and Bunker 1998b:8–9). There is further evidence that C&H's corporate behavior in this period was more indicative of a peripheral actor: as mentioned above, the senior managers' decision not to forward integrate into manufacturing, as its larger competitors were doing, and become a firm engaged in a decidedly core process. Instead, the firm remained largely engaged in extraction and primary processing until the 1940s, with the misfortune of having its production costs reaching untenably high levels at the same time the 1930s depression hit.

Of course, per Chase-Dunn (1989:207–08), firms (and states) are not core or peripheral in their entirety, but rather located along a continuum, with certain firms engaged in activities at different levels of the continuum; it is regions that should be considered core or peripheral. By way of extension, peripheral regions may place certain constraints on the firms located there, even if those firms otherwise manifest ostensibly core characteristics. This seems particularly true of extractive enterprises; as Bunker and his colleagues have found, extractive firms may become constrained by the physical geographies of the regions they operate in (Barham et al 1994; Bunker 1992, 2003; Bunker and Ciccantell 1995a).

While examining the firm is another way to explore how the world-economy plays out at the (near) micro level, the limit to any conclusion of regional constraint on a firm is of course that large multinational (or in this case multiregional) firms headquartered in core regions still have a greater range of options than do small producers. For their part, large extractive firms have an inclination to "cut-and-run"; and over the course of the 1930s, depressed markets, increasing production costs and increasing transport costs prompted C&H to begin searching for alternative investment fields, albeit outside the region it had been located in (Benedict 1952:206, 235–43). Indeed, at the same time as it struggled for lower freight rates, the firm had been liquidating its assets, making $48 million of shareholder payouts during 1919–29 (Gates 1951:156). Though the firm continued its Copper Country operations until 1969, the Depression era marked the beginning of the end for C&H's involvement in the region, and the region's economic identity as a mining center, as it went from being a resource-extractive internal periphery to one officially-classified as "government dependent" (USDA-ERS 1989).

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ERRATA

Volume X, Number 2, Summer 2004

A pagination error caused a gap between pp. 435–470. Thomas Reifer's introduction to the *JWSR* Mini-Symposium has been repaginated to p. 471. No other modifications have been made to the text or pagination.

January 17, 2005

By Thomas Reifer
Managing Editor

This issue of *JWSR* brings together a very important mini-symposium around Peter Gowan's challenge to one of the long-held tenets among many world-systems analysts: the distinction between the capitalist world-economy and world-empires. Gowan poses the question as to whether there might be another possibility, that of a capitalist world-empire. He analyses the United States as a contemporary example of this phenomenon. The essay by Gowan, as well as the articles by Terry Boswell and John Gulick, critically examine these issues, including larger questions about the role and trajectory of U.S. hegemony in the contemporary world. Giovanni Arrighi's piece, while not directly written in response to Gowan, is included here, as it addresses questions germane to the issues raised by Gowan, including David Harvey's recent work on "the new imperialism." This mini-symposium is intended to contribute to the contemporary debate about these important issues.

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ABSTRACT:

This paper focuses upon one small region of World-Systems Theory (WST) but one that is important for analysis of the contemporary world: the dynamics of intra-core relations.

I will try to address three questions:

1. Does the WST theory of the historically cyclical patterns of intra-core relations provide us with a persuasive framework for understanding contemporary core dynamics?

2. More specifically can the reach and depth of the power of the United States within the contemporary core be captured by WST's theory of capitalist hegemons and their rise and decline?

3. Is WST's insistence that its concept of core-wide world empires cannot be established in the modern world system valid?

In addressing these issues, I will begin by outlining the general approach of WST to the analysis of intra-core relations, focusing in particular upon WST's concept of core hegemons and their rise and fall. I will then look at the arguments of WST as to why a capitalist world empire is impossible. I will then go on to examine how we might conceive of the victory of a World-Empire. And I will then turn to examine the contending situation and the character of the power of the US today.

Contemporary Intra-Core Relations and World Systems Theory

Peter Gowan

PART I: THE THEORY OF HEGEMONY AND CONTEMPORARY CONDITIONS

One of the great strengths of world-systems theory (WST) is the fact that it insists upon the need to analyse contemporary dynamics within a long historical perspective. It argues that we can make sense of historical continuity and change through its concepts of core/periphery relations reproducing themselves across time. And it also identifies a recurrent pattern—or series of patterns—in intra-core relations in the Modern World System since the 16th Century involving a plurality of core powers both competing and co-operating with each other. Unlike, say, liberal international relations theory, WST sees intra-core relations as being marked by recurrent structural conflict as core powers compete with each other. But unlike realist international relations theory, WST does not derive its theory of structural conflict between core powers from purely political drives for power-maximisation on the part of states. Instead WST identifies the sources of conflict in the compulsions of capitalism as a socio-economic as well as an interstate system.

In this paper, we will accept WST's theory of the sources of structural conflict amongst core powers within what Wallerstein calls the Modern World System. Our critique will be directed towards WST's theorisation of resulting conflicts as a recurrent pattern of hegemonic cycles.

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The Mainstream WST theory of Intra-Core Relations and Hegemonic Cycles

All the main trends in WST agree on the idea that within the Modern World System there have been recurrent cyclical patterns in intra-core relationships. The cycles can be thought of as beginning when one core power rises to a dominant position within the hierarchy, becoming a 'hegemon' and establishing some order and stability to the core as other states adapt to the new hegemon's regime. This phase is followed by attempts on the part of other core powers to innovate and challenge the hegemon. As this challenge mounts, the core enters a phase of instability and conflict, typically resolved by intra-core wars which eventually throw up a new hegemon while the previous hegemon declines.[1]

Within the broad field of WST we can distinguish two contrasting emphases in the ways in which these cycles are theorised. One emphasis is close to realist theories of international relations, stressing the determinant as being the military-political capacities of core states. Writers like Modelski and Thompson along with Gilpin see the economic dimension as being subordinated to and structured by this issue of military-political capacity. But what might be called the mainstream of WST represented by Wallerstein, Chase-Dunn and Arrighi emphasise capitalist economic systems as the determinant element in the competition, understanding these economic systems in a Marxist sense as production systems generating streams of surplus value. They by no means ignore the role of military-political power but they view its role as an indispensable *support* for the struggle for dominance at the level of production. Thus we can summarise their theory of the hegemonic cycles as having two main components:

a. A constant search by a plurality of core powers to gain dominance in the most sophisticated and desirable capital-intensive products. Hegemons are those capitalist powers which achieve dominance in this production field thus positioning themselves at the top of the international division of labour, penetrating the markets of other core states, gaining the largest streams of surplus value and being able to set the framework for other core states in the economic field.

1. WST authors have also noted and explored other cyclical patterns and regularities such as: regularities of quantitative economic cycles—Kondratief waves, with their A Phase of growth and their B phase of depression. They link these K-waves with theories of co-operation/tension within the core; and quantitative regularities in the cycles of core warfare. But we will not consider these issues here.

b. Military-political action is viewed mainly as a *buttress* or support for this economic dominance, protecting the core economy from external attack or internal challenge and removing obstacles to the flow of its products across the system (Wallerstein 1984).

It is this very specific definition of hegemony which results in the WST's mainstream identification of the three hegemonic powers as Holland, Britain and the United States. The military-political perspective of Modelski and Thompson focuses on sea power rather than dominance in capital-intensive commodities as the key to hegemony and this gives Portugal a place on the list before Holland. But with either version we should note that the idea of hegemonic cycles in the core derives from the identification of hegemons and their fates.

This mainstream WST conception is perfectly coherent internally. But it is important to note that it employs a highly restricted concept of hegemony and one anchored in production systems. It is on the basis of that specific and restricted concept of hegemony that WST can derive its historical chain of hegemons and the cyclical patterns of their rise and decline. But WST also, as an inevitable consequence of its specific theory of hegemonic cycles, downplays other aspects of intra-core relations and is predisposed towards certain expectations of the contemporary dynamics rather than others. Three specific consequences of these kinds are important:

a. The equation sign between the three powers designated as successive hegemons tends towards downplaying some *radical differences* between the three hegemonies in terms of the type of capitalism, in the nature of the core context in which the hegemons operate and the distinctive political capacities of the successive hegemons.

b. It tends to downplay the possibility that a hegemon with great political capacities may be able to exploit feedback mechanisms from the interstate system onto productive systems other than the traditional feedback mechanisms of intra-core wars.

c. It predisposes Wallerstein, Chase-Dunn and Arrighi in their analysis of contemporary developments in the 1980s and 1990s to view the US as having entered a phase of hegemonic decline after its dominance in capital intensive production for core markets was challenged by German and Japanese capitalism in the 1970s.

The US as a Sui Generis Hegemon: Is it a Cycle-Breaker?

Wallerstein, Chase-Dunn and especially Arrighi do, of course, note various differences between the successive hegemonies both in terms of their own attributes and the contexts in which they have operated. But they have underestimated the qualitative differences between the US and Britain either by overplaying British power in the 19th century or by underplaying US power in the second half of the twentieth century or both. They have thereby tended to ignore the possibility that the peculiarities of US hegemonic capacities could disrupt the cyclical pattern by which WST has characterised core dynamics. We will briefly outline some central peculiarities of US hegemony since 1945:

The Unipolar Core

Since 1945 US dominance within the core has been qualitatively different from that of Britain in the 19th century, not to speak of Holland in the 17th century.

The political dimension of the Britain-core relationship in the 19th century and the US-core relationship in the second half of the 20th century has been radically different. The British relationship was marked by balance of power mechanisms—political multipolarity; the American relationship since 1945 has been marked by political unipolarity.

Britain never could, and never tried to, suppress political multipolarity within the core. Apart from ensuring the security of its access to the continent through the Scheldt and Belgium, Britain had only a 'negative' political goal within the continental core: that of ensuring that no single continental power dominated the continent. Britain's lack of both political capacity and political ambition to dominate the continental core was an important reason why Britain was accepted as the leader of the international political economy by other core powers. That leadership operated within a balance of power international political mechanism.

Since 1945, the US has suppressed the balance of power mechanism within the core, brigading all other core powers into essentially bilateral security alliances dominated by the US and taking over political leadership functions of the other core powers in the field of international politics. A hub-and-spokes structure of intra-core political/military relations thus ensued after 1945, with the primary political relationship of each core power being its subordinate link with Washington. There were, of course, variations in this political subordination: it was most marked in the case of the two other strongest core economies, Germany and Japan, less marked in the case of France. We will look at the modalities of this US political dominance later, but there is surely no doubt

that it constitutes a radical difference with the British 19th century case and it is not just a difference in the quantitative power resources of the hegemon: it is a radical difference in *the structure of intra-core politics*.

The Structural Character of US Political Subordination of the Core

US political dominance over the core does not simply derive from the US's quantitatively greater military power resources. It derives from how those military resources are deployed to politically shape the foreign and security policy context facing other core states. By shaping this context the US has indirectly shaped the actual substance of the foreign policies of other core states. Let us note some key features of this shaping activity:

a. The US has the ability to shape and control the regional strategic environment of the West European powers and Japan. In the case of Western Europe this has been achieved through making Western Europe strategically dependent upon the US-Soviet and now US-Russia relationship; in the case of Japan through making it dependent first on the US-Soviet relationship in the Cold War but now also on the US-China relationship. This strategic dependence of the allies is re-enforced by the Treaty obligations on both Germany and Japan not to develop their own strategic nuclear capacities. It may be further re-enforced by US development in the future of anti-ballistic missile capacities. Insofar as neither Germany nor Japan can break out of this strategic dependence on the relationship between the US and their neighbouring nuclear powers, their security is dependent upon the US.

b. The US has the ability to control, through its military-political reach, the regional peripheries of its major allies. In the West European case, the US has long controlled the Mediterranean area and it now also has extended its military-political predominance across South East and Eastern Europe through both NATO enlargement and the Partnership for Peace as well as through bilateral agreements. On the Pacific Rim it has important military-political bridgeheads in South Korea, South East Asia and privileged security relationships with Australia and New Zealand. As a result of this US military-political predominance in the hinterlands of the other core centres, it can steer events in those hinterlands to the benefit or detriment of those core regions. And it can do so either to the benefit, or to the detriment of these other core states. The US has demonstrated this capacity rather dramatically in the Yugoslav wars of the 1990s: from its refusal to use its resources to maintain Yugoslav unity in 1990–1991, to its drive for a unitary independent Bosnia (entailing a Bosnian war) at the start of 1992, to its success in persuading the Bosnian government to reject EU efforts to bring the war to an end, to its readiness to bring the war to

an end once the EU states had accepted the dominance of NATO in the Yugoslav and wider European theatres, to its capacity to lead the EU states into a war with the Yugoslav state in 1999. The US has similarly acquired predominant regional military-political influence over such parts of the Japanese hinterland as the Philippines, Thailand, Indonesia, Taiwan and South Korea.

c. The US has the ability to control the sources of and transport routes for crucial energy and other strategic materials supplies needed by its allies, through its positions in the Middle East and its sea and air dominance in the Mediterranean, the Indian Ocean, the Pacific and the Atlantic (it has also, of course, been seeking to extend its control into the Caspian area in the recent past). Interruptions of supplies can have very grave consequences for the other core states, but they are dependent upon the US to assure these supplies.

d. Very importantly, it has also had the capacity to homogenise the political cultures of its allies around sets of political values articulated to serve US interests, symbolic structures rooted in the US victory over Japan and Germany in the second world war embodying such highly sensitive symbols as 'Munich,' 'Hitler,' ethnicist nationalism and exterminism, totalitarianism versus freedom, democracy, individual rights, one universalist humanity, etc. This value structure has been repeatedly and effectively embedded within the national political cultures of its allies through repeated international political polarisations during and after the Cold War (notably recently in the drive against Iraq and in the various Yugoslav wars). It is a structure of political values which throws the main allied powers (Germany and Japan) into a very vulnerable international position and it has also repeatedly demonstrated the US's capacity to trump the rival potential centre of internationalist liberal and democratic universalism, France.

Taken together these four US capacities have reduced the foreign policy and power projection autonomy of its allies to near zero. This marks, at the very least, a profound, structural modification in the inter-state system in comparison with earlier epochs. Behind unipolarity lies a series of structural dependencies of other core states upon the US for their political security.

The Regime-Making Capacities of the United States

WST argues that each hegemon establishes an international regime of accumulation suited to its dominance in a particular set of capital intensive commodities and the other core powers adapt to that regime and then launch a competitive challenge within it. The regime then is eventually reshaped through intra-core wars. But there have been striking differences between *the regime-making capacities of the US and of Britain*.

Britain established both a regime for trade and a regime for monetary relations: the Free Trade principle and the Gold Standard principle. But the other core powers were not brigaded by British power into accepting these regimes. They 'voluntarily' accepted them (or didn't, as the case may be). And Britain unilaterally committed itself to these regimes: free trade was a unilateral decision by Britain, not a reciprocal bargain; and the same was true of the Gold Standard.

The USA has been able to operate quite differently: it has imposed international regimes on the other core powers and has had the capacity both *to stand above* its own international regimes and to adapt them to suit its perceived interests or to create entirely new regimes.

a. Trade Regimes: Thus the USA was never a unilateral free trader. It has adopted the ideology of free trade in the post-war period but it has restricted its implementation in very important ways and has continually demonstrated its readiness, if necessary, to flout free trade principles and pursue a policy of reciprocity rather than most favoured nation (MFN) status in trade relations. At the start of the 1990s the GATT was the embodiment of free trade principles but it was far from being the organiser of actual trade relations as a whole: on some estimates it embraced no more than about 5% of all international trade.

Thus the US has both presided over a (partial) free trade regime for the rest of the world and simultaneously given itself the right both to control the scope of that regime and to flout its own regime, where necessary, to suit its own interests.

This pattern has been applied throughout the post-1945 period and has been very evident in relation to the major institutional development in the field of economic relations in the 1990s: the emergence of the WTO. The US Congress's ratification of the WTO Treaty explicitly makes US acceptance of its jurisdiction conditional upon the WTO's being 'fair' to US interests. And all who follow international trade policy know that the word 'fair' in this context means serving and defending US economic interests. And for successive US administrations since the late 1980s this conditional general stance towards the GATT/WTO has been combined in US trade policy, with explicit determination to flout GATT/WTO rules where these are deemed 'unfair' to US interests, an approach which Jagdish Bagwati has aptly called 'aggressive unilateralism.' Bagwati highlights the creation and use of the so-called Super 301 and Special 301 laws, but to these could be added other instruments of US unilateralism on international economic law, such as its use of anti-dumping instruments and countervailing duties. All these instruments have been placed in the service of US claims to have unilateral national authority to judge which kinds of behaviour by other states in economic policy are 'unfair' to the US, regardless

of what rules are laid down within the GATT/WTO framework. And the use of these instruments has been far from marginal in US international economic policy. As Miles Kahler (1995) points out, side 'the number of actions brought against 'unfair' trading practices—anti-dumping, countervailing duties (subsidies) and section 301—increased dramatically' during the 1990s (p. 46). In the words of Pietro Nivola (1993) 'no other economic regulatory programme took on such an increase in case-loads' (p. 21).

And this refusal to be bound by global economic law has been combined with vigorous attempts in some fields to extend the jurisdictional reach of US domestic economic laws internationally, applying it to non-American corporations operating outside the United States. Of actions in this field, Kahler (1995) reports that 'Here the list was long' (p. 46).

b. International Monetary Relations: the contrast is equally striking and structurally similar in international monetary relations. The international monetary system established at Bretton Woods was always conditionally and partially implemented and although it did begin with the US accepting a discipline upon its dollar policy through the gold link, when that discipline was perceived by the US government in the 1970s to be detrimental to US interests it was simply scrapped through unilateral action by the US against opposition from all other core states and from then on the international monetary system became a pure dollar standard, thus manipulable by the US government as it wished.

This dollar standard international monetary system has enabled the US to escape from the usual balance of payments constraints upon a state's economic management and also enabled the US to escape the consequences of large swings in dollar exchange rates with other currencies, such as the Dmark and the Yen. It has thus been able to swing the dollar up or down against other currencies in line with purely US economic or political objectives.

John Williamson (1977), an insider in the diplomacy that led to the US's imposition of the dollar standard in the mid-1970s has expressed what was at stake clearly: "The central political fact is that a dollar standard places the direction of world monetary policy in the hands of a single country, which thereby acquires great influence over the economic destiny of others. It is one thing to sacrifice sovereignty in the interests of interdependence; it is quite another when the relationship is one way. The difference is that between the EEC and a colonial empire.... The fact is that acceptance of a dollar standard necessarily implies a degree of asymmetry in power which, although it actually existed in the early post-war years, had vanished by the time that the world found itself sliding to a reluctant dollar standard" (p. 37).

c. International Financial Regimes: The same pattern has applied to the international financial regime: when the US government decided that the Bretton Woods system of state control of international financial control was detrimental to US interests, it had the capacity in the 1970s to transform the regime, placing international financial flows in the hands of private financial operators and markets, and placing New York as the international financial centre from the early 1980s. Since the 1970s it has also involved effectively dismantling the financial regimes of its allies (ending capital controls).

d. Product and Asset Market Regimes: US regime-shaping capacities have extended also to all other areas of international economic flows and international markets. Markets are often treated as if they were spheres of exchange autonomous from state policy, but in the modern world they are highly complex mechanisms grounded in intricate networks of public and private law, institutions and conventions. The state executives and big businesses of the core states work together to seek to shape markets in their own interests. And in this field the US has demonstrated great and continuing influence. Since the launching of the Uruguay Round in the mid-1980s it has been engaging in an extremely wide-ranging and remarkably successful effort to restructure both product and asset markets *within* other states, bringing their legal rules and institutions into line with the perceived interests of US business expansion into those states. These so-called 'behind the border' international regimes are another distinctive feature of the phase of US hegemony.

Giovanni Arrighi, who, more than other WST theorists, has understood some crucial distinctive features of US global power, provides us with an interesting perspective on this. He calls American capitalism 'autocentric' in its relation to the international political economy, while British capitalism was, in an important sense, shaped by the distinctive relationship of each of its parts with the world economy. The 'autocentric' character of US capitalism—made possible not only by its internal characteristics but also by its extraordinary power vis a vis the rest of the world explained above, has involved an ambitious agenda of, in Arrighi's words, 'internalising the world economy within and in line with the structures of American capitalism.' Arrighi stresses internalisation within the organisational domains of US MNCs: but US restructuring of the social relations of production abroad has been far more extensive than that.

We do not wish to suggest that these capacities to restructure the internal regimes of its allies have been absolute—absolutely not. And we will not, at this stage consider how extensive they have been.

This international regime-shaping capacity in the international political economy has been, of course, linked to the overwhelming military-political

dominance of the USA over the core discussed earlier. Both have given the USA historically egregious power capacities enabling it to respond assertively to the challenges to its hegemony in the field of capital intensive production, using its strength outside this field to strike back on many fronts in order to prepare the way for its hegemonic restoration in the productive field. These feedback effects have not applied to other core powers and have not been given due weight by WST authors, although Arrighi has been sensitive to some important aspects of them.

US Feedback Mechanisms for Cycle-Breaking.

WST's focus upon a definition of hegemony centred upon production systems has thus been combined with an inadequate stress on the mechanisms available to the US and not available to earlier hegemons for responding to challenges from core competitors in the sphere of production and striking back. We can think of these mechanisms as a kind of feedback from outside the productive sector onto the course of events within the productive sector. The most important of these mechanisms has been the US's extraordinary military-political reach; but also of great importance has been its power of the monetary-financial system. Both these mechanisms have given the US the ability to change and rechange the rules of the game in the sphere of production and commodity exchange in order to create the conditions for rebuilding US hegemon in the narrow sense in which it has been used by WST.

The potency of the military-political levers during the Cold War has been stressed by Samuel Huntington (1973) in an important article in the 1970s:

> Western Europe, Latin America, East Asia, and much of South Asia, the Middle East and Africa fell within what was euphemistically referred to as 'the Free World' and what was, in fact, a security zone. The governments within this zone found it in their interest: (a) to accept an explicit or implicit guarantee by Washington of the independence of their country and, in some cases, the authority of the government; (b) to permit access to their country to a variety of US governmental and non-governmental organisations pursuing goals which those organisations considered important....The great bulk of the countries of Europe and the Third World....found the advantages of transnational access to outweigh the costs of attempting to stop it (P. 344).

And as David Rothkopf (1998) has added, in the post-war years "Pax Americana came with an implicit price tag to nations that accepted the US security umbrella. If a country depended on the United States for security protection, it dealt with the United States on trade and commercial matters."

A very important indirect effect of US military-political capacity has been its control over energy and strategic mineral sources and transport routes, the most dramatic example being its use of the oil price rises in the early 1970s.

The potency of the monetary-financial levers has been equally striking, with the US government demonstrating repeatedly that through the threat or actual use of US control over the international monetary and financial regime, it can profoundly negatively affect the economic outcomes of allied economies, disrupting their macro-economic strategies: what I have described elsewhere as the Dollar-Wall Street Regime constructed in the 1970s and early 1980s (Gowan 1999). Examples of such strategies would include monetary pressure on the French economy to defeat the Keynesian growth strategy of the early 1980s and the manipulation of the Dollar-Yen exchange rate to exert intense pressure on Japan's trade position in order to gain an opening of Japanese finance to US financial operators in the 1980s and to gain various kinds of managed trade agreements with Japan in the 1990s. Linked to the security pact tactic, the US in the 1980s and 1990s added the use of economic statecraft in the monetary and financial field to encourage states to 'deal' with it on restructuring its approaches to economic policy and organisation.

Taken together, these levers have enabled the US to 'internalise' the international political economy as Arrighi puts it, to a considerable extent or, to express the same idea in another way, to make significant inroads into the capacity of its allies to manage their own internal affairs autonomously.

The Mistake about US Hegemonic Decline

Aggregating all these distinctive features of US hegemony, we can see how, when faced with serious challenges to its dominance in capital intensive sectors in the 1970s, the US has a very wide range of instruments essentially derived from its structural power over the inter-state system of the core with which to strike back at competitors. These instruments have been largely ignored or downplayed by mainstream WST. And even Arrighi, who stresses them more than others still remains wedded to the thesis of precipitate US hegemonic decline.

Arrighi's account of the supposed decline focuses upon financialisation. He provides a brilliant account of the way in which earlier hegemonic powers, when faced with defeat in product markets, switched to financialisation and to gaining profits from the competitive success of its rivals. This pattern fits Genoa, Holland and Britain. Chase-Dunn provides a supporting theorisation with his strong emphasis on capital mobility across the inter-state system. He adds to Arrighi's argument by saying that the declining hegemon's domestic capitals are

not prepared to foot the bill for the mobilisation of state resources to re-subordinate rivals by military means.

Arrighi then suggests that the international financialisation which we have witnessed since the 1970s has essentially been a repeat of this earlier cyclical pattern of financialisation. But this has not been the case: quite the opposite. First, the financialisation process was initiated as much by the US state as by US capitals. Secondly, it should be understood as part and parcel of the US state's drive to construct the Dollar Wall Street regime as a weapon for the US fight-back. Thirdly, US leadership of international monetary and financial relations has been a double lever for this fight back: both an instrument of pressure upon other core states, as we have suggested above, but also an instrument for providing the US state with the financial resources for massively strengthening its state military-political capacity in the 1980s.

With all these instruments the US has thus been able to 'hold the line' against its allied competitors and during the 1990s it has been able to pressure its allies into accepting its own internally generated new leading sectors of capital-intensive industries as the 'hegemonic' industrial driving forces of the new phase of the world economy: the 'information' and telecommunication industries.

PART 2: WST AND THE POSSIBILITY OF CAPITALIST WORLD EMPIRES

Our critique of WST analysis of contemporary intra-core relations suggests that the scheme of hegemonic cycles in a politically pluralistic core may need structural modification in the light of the characteristics of US hegemony. Some writers, particularly American realists, go much further and insist that the advanced capitalist core today is organised as an American world-empire.

Zbigniew Brzezinski has recently forcefully advanced this argument that today we have US imperial dominance over its European and East Asian allies. He underlines the fact that "the scope and pervasiveness of American global power today are unique....Its military legions are firmly perched on the western and eastern extremities of Eurasia, and they also control the Persian Gulf. American vassals and tributaries, some yearning to be embraced by even more formal ties to Washington, dot the entire Eurasian continent, as the map on page 22 shows" (Brzezinski 1997). What the map in question shows is areas of US 'geopolitical preponderance' and other areas of US 'political influence.' The whole of Western Europe, Japan, South Korea and Australia and New Zealand, as well as some parts of the Middle East and Canada, fall into the category of US geopolitical preponderance, not just influence.

Kenneth Waltz and Paul Wolfowitz have claimed that the Bush and Clinton administrations have been guided precisely by the goal of establishing political dominance over the rest of the core. The famous 1992 Bush administration document on American Grand Strategy for the post-Cold War world order frankly placed at the very centre of US strategic priorities the subordination of the rest of the core, in the version of the text leaked to the New York Times early in 1992.[2] This advocated as a central goal 'discouraging the advanced industrialised nations from...even aspiring to a larger global or regional role.' Waltz (2000) points out that despite protests at the time that the document was only a draft, 'its tenets continue to guide American policy.' The chair of the interagency committee which produced the 1992 Grand Strategy, Paul Wolfowitz agrees with Waltz both that the 1992 strategy guidelines have guided US policy and that they have been centred on creating a Pax Americana in the sense of maintaining the subordination of the allies. He adds that 'just seven years later' many of those who criticised the document at the time ' seem quite comfortable with the idea of a Pax Americana...Today the criticism of Pax Americana comes mainly from the isolationist right, from Patrick Buchanan' (Wolfowitz 2000).

The concept of world-empires plays a prominent role in WST. When Wallerstein first launched WST upon the world in 1974 he argued that historically world systems have taken two forms: world economies and world empires. At the start of Volume One of Wallerstein's *Modern World System*, he draws this distinction very sharply (Wallerstein 1974). A world-economy, he explains, is an 'economic' unit, while a world-empire is a 'political' unit in which one political centre dominated the entire world system.

Chase-Dunn and Hall have modified Wallerstein's original conception, arguing that the concept of a World Empire should be defined as one power dominating the core rather than the entire international division of labour involving the whole periphery as well. As they put it: 'There have not been true "world-empires" in the sense that a single state encompassed an entire trade network....rather, so-called world-empires have a relatively high degree of control over a relatively large proportion of a world system. The term we prefer because it is more precise, is core-wide empire' (Chase-Dunn and Hall 1997:210).

They also acknowledge that there have been a series of attempts by capitalist powers to precisely achieve, through war, a capitalist world empire. They mention in particular the Napoleonic attempt and the German attempt in the first part of the 20th century (Chase-Dunn and Hall 1997; see also Chase-Dunn 1998).

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2. This was the 1992 Draft of the Pentagon Defence Planning Guide.

Furthermore, Chase-Dunn (1998), in his book *Global Formation*, gives an even clearer and more analytically operational concept of a capitalist world empire: he says it is 'the formation of a core state large enough to end the operation of the balance of power system' (p. 147). This is precisely the condition which has applied in the core since 1945. Thus, Chase-Dunn's reformulation sharply raises the question whether what we have today is precisely just such a world empire dominating the core.

Yet a consistent and distinctive feature of WST since 1974 has been the insistence of Wallerstein and Chase-Dunn on *the theoretical impossibility of a capitalist world-empire*.

Thus, even while Chase-Dunn defines a world empire as a condition where a single core state suppresses the balance of power mechanism within the core—a very weak definition of a world empire—he does not acknowledge that the US has effectively achieved this since 1945. And like Wallerstein and other mainstream WST theorists he resolutely argues that in the modern, capitalist world system a core-wide empire is theoretically impossible. We will therefore examine in some detail the arguments of WST theorists as to why a capitalist world empire should be ruled out in the contemporary world.

WST authors reach this conclusion by various significantly different, though overlapping routes. Wallerstein acknowledges that both world economies and world empires seek the extraction of economic surplus. But he says that world empires employ a different mode of extraction, a statist tributary mode, while world economies use market exchange mechanisms. And since, for Wallerstein, market mechanisms are integral to capitalism, capitalist world empires are contradictions in terms. His conclusions as to the impossibility of a world empire are thus contained in his premises. He excludes *ab initio* the possibility that world empires could be other than tributary states.

As he explains:

> Political empires are a primitive means of economic domination. It is the social achievement of the modern world, if you will, to have invented the technology that makes it possible to increase the flow of the surplus from the lower strata to the upper strata, from the periphery to the center, from the majority to the minority, by eliminating the "waste" of too cumbersome a political superstructure. (Chase-Dunn 1998:15–16)

In *Rise and Demise* Chase-Dunn and Hall make a similar point. They state: 'Capitalists prefer a multicentric international political system. Hence the most powerful states in the modern inter-state system do not try to create a core-wide empire but seek rather to sustain the interstate system. This is because their main method of accumulation is commodity production, which contrasts with precapitalist systems, in which state power itself was the main basis of accumulation, through taxes or tribute. Phrased differently, capitalist states are qualitatively different from tributory states' (Chase-Dunn and Hall 1997:33; see also Chase-Dunn 1990). This argument is re-iterated in slightly different terms towards the end of their book, when they say that in the modern world system unlike earlier ones, a hegemonic power 'never takes over the other core states. This is not merely a systematic difference in the degree of peak political concentration. The whole nature of the process of rise and fall is different in the modern world-system. The structural difference is primarily due to the relatively much greater importance that capital accumulation has in the modern world system' (Chase-Dunn and Hall 1997:210).

There is, indeed, a slightly different stress here from Wallerstein, particularly in the implicit idea of Chase-Dunn and Hall that core capitalists will display solidarity against a world empire being established by a hegemon since it would restrict their freedom of movement as capitals and block their scope for exploiting inter-state arbitrage, a point to which we will return.

But in Chase-Dunn's earlier book, *Global Formation*, he provides a much more specified and testable series of arguments as to why the modern capitalist core will successfully resist the establishment of a world empire. His argumentative route passes from an initial acceptance that a capitalist core-wide empire involving capitalist market exchange is in principle possible to deploying a series of arguments to the effect that there are overwhelmingly powerful forces built into the structure of the modern world system preventing this theoretical possibility from occurring. Some of these arguments derive resistances to world empire from structural characteristics of the inter-state system in the modern world. Others focus upon structural features of capitalism as an economic and social power system of production and upon the derived interest perceptions of capitalists.

While Chase-Dunn presents his argumentation as a set of reasons why a core-wide empire is impossible, we can re-angle his claims to present them as the necessary preconditions for achieving a core-wide empire. Some of these are preconditions in the inter-state system; others are preconditions concerning capitalist impulses and interests. We can summarise these as follows:

a. Inter-state system preconditions:

   1. An empire-state would have to be strong enough to suppress the balance of power system and establish a unipolar organisation of core politics.

   2. It would have to find ways of preventing the diffusion of military technologies to other core states, to prevent them mounting a military challenge to the empire-state.

3. It would have to be able to suppress the possibility of other core states using their sovereignty to experiment and innovate to challenge the hegemon in the productive field.

4. It would have to be able to prevent counter-tendencies and movements towards world government from other core capitalists and states, perhaps in alliance with other, subordinate social groups.

b. Capitalist interest/incentive pre-conditions:

1. It would have to prevent international capitalists from ganging up to weaken its control over the international political economy in order to protect their own freedom of movement and of operations from its predatory demands.

2. It would have to convince international capitalists that the world-empire would avoid undermining the basis of capitalist social domination within other core and periphery states, avoiding, for example, the possibility of transnational anti-systemic movements challenging both the empire and capitalism.

These arguments of Chase-Dunn are important. We can agree that many of them do indeed offer us a theory of the pre-conditions for a secure, long-term, core-wide empire highlighting important internal tensions in any such project. But after examining each in turn, we will question some of the premises underlying Chase-Dunn's theorisation.

Inter-state Preconditions: The maintenance of unipolarity in the core, preventing other core states from allying against the world-empire project is clearly a fundamental precondition. But Chase-Dunn's argument that the empire state would have to prevent the diffusion of military technological knowledge across the core—something that Chase-Dunn considers impossible in the modern world—is surely one-sided. The empire state would simply have to maintain at any one time a decisive technological lead sufficient to deter any challenge at any given time. This would indeed be a precondition but one linked as much to relative resources for military research and development as to capacities to block information flows in this area.

The third point in this area—suppression of effective competitive challenges in the productive sector from other sovereign core nation states—is clearly fundamental. We can express this as the ability of the empire state effectively to control socio-economic developments and outcomes *within* juridically sovereign core states. Many would regard such a task as a contradiction in terms and thus a decisive basis for ruling out a world empire in which juridically sovereign states are retained in the core. We shall return to this subject later.

The fourth point—the world-state's ability to prevent the other core states from transforming the world dominated by a single empire-state into a world state is also, of course, fundamental.

Capitalist interest/incentive preconditions: This set of arguments essentially rest upon the idea that the interests/incentives of core capitals including those of the incipient empire state would be radically opposed to any such world empire project because of the systemic needs of capitalism as such. As Chase-Dunn and Hall (1997:33) put it in the quotation above, 'capitalists *prefer* a multicentric international political system.' They do so for both economic and political reasons.

Freedom of international movement of capital is important both to exploit unevenness and as a decisive source of structural power over geographically immobile labour. Both depend upon real competition between core states in the international political economy. This competition offers capital the chance for regime arbitrage across states, checks the ability of any state, not least the empire-state, to impose restrictions and extra fiscal and other burdens on capital and drives labour constantly to accept restructuring of production within any state for fear of capital migration. Thus the maintenance of inter-state competition is necessary for the preservation of the social domination of capital.

But the inter-state system is not only a lever for negatively disciplining the working class and other subordinate groups in the economic system. It also provides a basis for subordination through providing strong 'vertical' political identities between different social groups within a given state: identities based on the supposed priority of racial/ethnic, cultural, or religious bonds between social classes within the state overriding other social divisions. The resulting 'state-worship' based upon the state's supposed embodiment of the values of the ethnic, cultural or religious community is a further source of social subordination to the rule of capitalism and one that depends upon the maintenance of the authority and capacity of nation states and thus of the inter-state system. Insofar as a set of core nation states seemed to be subordinated to an empire state, there could be the risk of movements by subordinate classes across core states to mount challenges to the empire state with potentially anti-capitalist dynamics.

These arguments carry great force. But they rest quite strongly upon two premises. The first is that world-empires and sovereign states are necessarily mutually exclusive, polar opposites. And the second is that there is a structural tension between capitalists and states which a fortiori must be particularly strong as between capitalists and an empire state. Both these premises are weak in the contemporary world.

A World Empire of Juridically Sovereign States?

The liberal tradition tends to place juridical relations on a higher plane than political relations. It thus assumes that a world empire in a political sense presupposes juridically imperial relations. The European Empires of the first half of the 20th century were indeed juridically anchored and liberalism typically assumes that their replacement with a new juridical order of sovereign states encompassing the globe ended possibility of an era of empires of any kind.

But this concept of an empire presupposes that an imperial relation is one of hierarchical command-compliance: a centre gives an order and the subordinates follow it—a juridical empire is simply the most formalised form of such an hierarchical command empire.

But a systems approach to the organisation of politics and political economies can offer us a very different, more indirect but also more robust and effective form of imperial control, one in which the empire state has sufficient capacity to design the core as a system of inter-actions which systematically tends to produce outcomes re-enforcing the power and interests of the empire-state.

Joseph Nye (1990) discusses this variant in his book, *Bound to Lead*, as follows:

> Command power can rest on inducements ("carrots") or threats ("sticks"). But there is also an indirect way to exercise power. A country may achieve the outcomes it prefers in world politics because other countries want to follow it or have agreed to a system that produces such effects. In this sense, it is just as important to set the agenda and structure the situations in world politics as it is to get others to change in particular situations. This aspect of power—that is, getting others to want what you want—might be called indirect or co-optive power behaviour. It is in contrast to the active command power behaviour of getting others to do what you want (1990: 31).

One central consequence of Nye's concept is that it suggests the possibility that a world empire can be an inter-state system and international political economy shaped and structured in ways that *generate empire-state re-enforcing agendas and outcomes.* We can call this an Empire-System.

Let us take some simple examples of how an Empire-System could work. If the empire state can shape the geopolitical environment of other core states in such a way that their security is threatened in ways that require the military resources of the empire state, these other core states will want what the empire-state wants. Or if the other core states' financial sectors' stability is bound up with the safety of their loans to empire-state companies and individuals whose prosperity in turn hinges upon rising prices on the empire-state's securities markets, those other core states will want what the government of the empire-state wants: a priority for stability on the empire-state's financial markets. Or if other core states' capitals view their continuing expansion as dependent upon further opening of 'emerging markets' in the semi-periphery and if the most potent instrument for such opening is the empire-state's manipulation of the international monetary and financial regime, the other core states will want what the empire state wants.

Of course, in reality, a core-wide empire in contemporary conditions would not be exclusively an Empire-System of this sort. It would also possess various instruments of command power and indeed of covert action and surveillance within the core to assure its dominance. But the main form of its dominance would be indirect, of the Empire-System type, even if the Empire-System rested upon foundations of extraordinary military-political capacity and reach.

The Empire State as Friend or Foe of Capital?

The idea that there is a deep antagonism between private business and the state runs deep in Anglo-American liberalism and it has been radicalised in the neo-liberal ideologies of the contemporary period. This preconception can lead one to think that capital would be especially hostile to an imperial super-state.

One referent for this supposed antagonism lies, of course, in the counter-position between private-property-market mechanisms of supplying goods and services and state provision of goods and services. But to define the capitalist state as first and foremost a provider of goods and services is, to say the least, somewhat one-sided. Another referent is the trade-off between state revenue and retained private income. But this can scarcely be seen as a radical opposition between state and capital given that the bulk of such taxation is spent upon infrastructures necessary for the reproduction of the private sector itself.

There are, of course, very strong grounds for arguing the opposite case, namely that in the contemporary core there is a symbiotic relationship between capitalist states and capitalist classes. Arrighi has stressed closeness of this relationship pointing out that markets are simply a mediating level in capitalist reproduction rather than an autonomous governing framework for capital accumulation. He emphasises this with some striking formulations by Braudel on the relationships between capitalism and markets.

Braudel argues that the market should be seen as the 'middle layer' of the modern economy; beneath it is the layer of production and subsistence; and above it is the layer which Braudel calls capitalism—or as he expresses it, the 'anti-market.' Braudel (1982) says of this: "Above [the lowest layer], comes the favoured terrain of the market economy, with its many horizontal communications between different markets: here a degree of automatic co-ordination

usually links supply, demand and prices. Then alongside, or rather above this layer, comes the zone of the anti-market, where the great predators roam and the law of the jungle operates. This—today as in the past, before and after the industrial revolution—is the real home of capitalism" (pp. 229–230). Elsewhere Braudel (1977) adds: 'Capitalism only triumphs when it becomes identified with the state, when it is the state' (pp. 64–65).

In this context, it is perfectly possible to envisage possible bases for strong co-operation between the capitals of the core and an emergent empire-state. Let us mention some of them:

a. If the empire-state presents itself as the champion of the most unrestricted rights of capital over labour within all the states of the core, this empire state should expect a warm reception from capitals across the core.

b. If the empire-state offers itself as an instrument for expanding the reach of all core capitals into the semi-periphery and periphery it should also expect a warm reception from capitals across the core.

c. If the empire-state offers a new model of capitalist organisation which brings very large additional pecuniary rewards to leading social groups within other core states it can hope to create a broad constituency of social support in the business classes across the core.

d. If the empire-state offers a mechanism for managing the world economy and world politics which is sufficiently cognisant of trans-core business interests the empire-state may be strongly preferred to the risks of institutionalised world government by core business and political elites.

In conclusion, insofar as Chase-Dunn is arguing that a precondition for a capitalist world empire is that the empire-state must be perceived by strategic sectors of core-wide capital as its champion, we could agree with him. But insofar as he argues that this is a theoretical impossibility we would disagree.

WST theorists do not seem to have adequately explored the possibility that within the Modern World System, a core wide empire is, under certain conditions, very much a theoretical possibility. The key attributes of a state seeking to become an empire-state in contemporary conditions are:

a. It must have the resources to organise its empire as a System-Empire not just as a Command (or juridical) Empire.

b. It must have the capacity to rally strategic constituencies of core-wide capital to its empire project.

Of course, the long-term sustainability of the world empire would require many other pre-conditions: the empire-state would have to use its extraordinary dominance to ensure the continued ascendancy of its capitals in key production sectors. It would have to assure its capacity to extract sufficient resources from the reproduction process to sustain its military-political reach and ascendancy and it would be faced by the constant danger that its own public policy blunders could drag it down to defeat.

We will now turn to consideration of whether such an empire actually exists, as Zbigniew Brzezinski would have us believe.

PART 3: CURRENT INTRA-CORE DYNAMICS: THE UNITED STATES AS A NEW WORLD-EMPIRE?

One of the most striking areas of weakness in Western social science analysis in the last quarter of a century has been its inability to reach anything like a stable, minimal agreement on the role and capacity of the United States in international relations. Within a decade opinion has swung wildly from images of the US as being in terminal hegemonic decline to images of it as a colossus dominating the planet. And there has generally been no minimal agreement, even within each of the various intellectual paradigms on the criteria for making analytical judgments on this topic.

Mainstream WST at least has had the merit of maintaining over decades a fairly clear and stable set of theoretical and analytical criteria for approaching this topic. It has ruled out the theoretical possibility of a world empire, it has provided clear criteria for identifying hegemonic status and it has judged, on the basis of its criteria that since the 1970s the US has been in hegemonic decline.

The performance of American capitalism in the 1990s would also seem to provide WST with evidence that the United States is bouncing back and has entered a phase of hegemonic revival—something not excluded as a possibility in WST. In the capital intensive information and telecommunication industries which seem to be revolutionising international economics, the US seems to possess a substantial competitive advantage. And more than ever it seems to possess the military-political capacity to ensure the diffusion of its products in these fields on a global scale.

But our analysis in this paper suggests that the United States occupies a place within the contemporary core qualitatively different from the place suggested by the concept of hegemon which mainstream WST advances. It possesses strong elements of what we have called a capitalist world empire.

We will focus here on some critical issues on which a judgement of the nature of US dominance would depend. We argued above that the success of

the American state's project for establishing and consolidating a capitalist world empire must depend upon achieving four critical goals:

a. It must have the capacity to rally strategic constituencies of core-wide capital to its empire project.

b. It must have and must be able to deploy effectively the resources to organise its empire as a System-Empire not just as a Command Empire.

c. Success in these two fields must be complemented by its ability to sustain, in the long term its ascendancy in the most dynamic sectors of capital-intensive production.

d. Success must also include an effective set of mechanisms for demonstrating that such an empire-system is optimal for managing transnational class relations between capitalism and subordinate classes, coping with future anti-systemic movements.

International Social Coalition Building

In pursuing its world-empire project over the last twenty years, the United States' business and political elites have sought to rally support as the champions not just of American business interests but of business interests and the strengthening of capitalism as a social system on a world-wide scale. This, we have argued, is a necessary condition for any capitalist world-empire project.

On the face of it, this task might seem a daunting one. After all, every European or Asian business person knows very well that the US government aggressively supports its own businesses against the international competition wherever it can, a feature that has been particularly pronounced in the Clinton administration. Yet the US has shown that it has very great capacities to present itself as the leader of global capitalist interests in a number of ways:

a. *The champion of the rights of capital over labour.* Business in other parts of the core and semi-periphery is not simply or mainly pre-occupied with competitive challenges from US businesses. It is daily concerned with maintaining its stable social ascendancy over labour. The US stands as an example and a champion of the most unrestricted rights of capital over labour within all the states of the core. Its programmes processed through the IMF and World Bank in the former Soviet Bloc, in semi-periphery and periphery demonstrate that. And its programmes for privatising utilities, freeing transnational private financial operations, placing the financial sector in the driving seat and re-accenting capitalism towards securities-market centred, share-holder value buttressed by private pension funds has great attractions for core capitalists. The US programme offers very substantial rewards to the rentier interests of business executives and others. Thus, insofar as the German government fully adopted the US programme for shareholder capitalism, a German business executive could hope to see his or her income at least doubling.

b. *Strengthening Core Capital's Expansion into the Semi-Periphery and Periphery.* A second very important basis for the US being able to present itself as the champion of core capital as a whole lies in its ability to demonstrate its leadership on the global expansion of core capitals into regions outside the core. Since the days of the Reagan administration, the US has driven forward a programme which offers the semi-periphery and periphery only one path towards economic development: that of opening its domestic assets to the entry of core capitals for FDI-led growth and for portfolio inflows to compensate for domestic financial and fiscal strains. This has been a powerful programmatic link between the interests of the United States and its businesses on the one hand and the businesses of the rest of the core on the other.

c. *Bargaining Power with the Strongest non-American Core Businesses.* A much more narrowly focused but extremely important aspect of US coalition-building is its ability to accept or deny the most influential groups of multinational corporations based in other core states secure insertion into the US market itself. Any European or Japanese company seeking global ascendancy in its sector must gain a strong, secure presence within the United States. Achieving this is as much a political as a purely economic task. The capacity of the Deutsche Bank to buy a large German bank or of Daimler Benz to buy a large US car producer depends upon a willingness to accept American approaches to developments in their own countries, for example, a readiness on the part of the Deutsche Bank to move away from the closed system of German corporate governance involving inter-locking bank-industrial structures. The same applies to Japanese companies.

d. Being able to resist pressures from other parts of the core for collegial, institutionalised forms of global government by offering core capitals sufficient scope for their own expansion within an empire-state framework of global governance.

This has been, perhaps, the most sensitive area in the efforts of the US to consolidate its global social coalition in the 1990s. Its operations in international monetary, financial and trade and investment policy at an international level have frequently aroused suspicion on the part of the capitals as well as the governments of other parts of the core that US power is being used narrowly to favour its own capitals and clients. Rather than opting for a capitalist world empire, capitalists are, in the view of Chase-Dunn and Hall, more likely to accept moves towards world government, despite the risks these steps could

involve of generating social movements challenging the capitalist market. Thus, in *Rise and Demise*, speaking of the weak forms of global governance supplied by the Concert of Europe, the League of Nations and the UN, Chase-Dunn and Hall (1997) continue: 'Though these weak forms of global governance did not much alter the pattern of hegemonic rise and fall in the cycle of world wars over the past 200 years, the spiraling strengthening of global governance might, if it continues, eventually lead to a world state that can effectively prevent warfare among core states' (240). But they underestimate the extent to which the world-empire project can remain an attractive alternative even for the capitalists of competitive core states. One of the reasons for that attractiveness is precisely given by Chase Dunn and Hall when they point out a 'world state would likely be dominated by the hegemony of global capital for a time. However, if the fascist alternative were avoided, it might undergo a reform process that would lead to global democratic socialism' (Chase-Dunn and Hall 1997:240).

At a more immediate level, a powerful compensating factor mitigating resentments among other core capitals against US economic nationalism has been the boom in the American economy itself, which has offered wide profitable opportunities for capitals across the core and which has thus eased international business tensions.

All these factors, then, have enabled the United States to gain very broad social support from the business classes of the rest of the core for its world-empire project in the 1990s. No clearer demonstration of that is needed than the fact that the media empires of the core have been prepared to thematise the American project not as a Pax Americana but as an agentless process of 'globalisation' that we must all accept and live within.

Progress Towards an Empire-System

We have argued that in the contemporary world, a core-wide empire cannot be sustainable simply as a Command Empire, whereby the empire-state is reliant upon carrots and sticks to maintain its dominance over the rest of the core. These command capacities should be confined largely to crisis situations while the normal functioning of the order leaves them in the background and can rely upon the shaping of the power-relevant environments of other core powers to make them 'want what the US wants' in the phrase of Joseph Nye. We will now investigate the extent to which the US has been able to advance and consolidate this Empire-System in the 1990s.

a. *Preventing Other Core Powers from Gaining Regional Geostrategic Autonomy*. The Bush administration's 1992 Grand Strategy document was surely right to prioritise the risk of the West European and Japanese parts of the core

acquiring regional political autonomy. One very important dimension of this is geostrategic autonomy. This could be achieved through Germany leading Western Europe into a strategic security partnership with Russia and through Japan entering a strategic security partnership with China. Such partnerships would not, of course, be directed against the United States. They would simply give priority to the formation of a security community of the states involved. In the event of achieving this, the relevant core states would lose their geostrategic dependence on the US relationships respectively with Russia and China.

During the 1990s, the US has successfully prevented this eventuality from arising. The exclusion of Russia from an enlarging NATO striking out of area at a state with friendly relations with Russia—namely Serbia—in the Kosovo war has indeed gone a great distance towards rebuilding Europe's bipolar structure. At the same time the United States has been strengthened in its efforts to secure a belt of pro-US states between Russia and Germany. A further step to consolidate this pattern of Western Europe's strategic dependence on the US would, paradoxically, need to be for the US to have the capacity to demonstrate to Russia that its position in the international order can best be secured through privileging its relations with the US rather than with Germany and Western Europe.

In the Pacific region, there is little risk of Japan seeking to break out of its strategic dependence upon the United States-China relationship because of the many potential conflicts of political interest with a China which is becoming increasingly powerful within the whole region.

b. *Preventing European Political Unity*. A very important and too little recognised feature of US political dominance in Europe during the Cold War was the fact that NATO Western Europe was actually politically fragmented with each fragment having its main political link with the US rather than with other West European fragments. The EU created the illusion that this was not so. This political fragmentation of Western Europe has continued through the 1990s, but significant counter-tendencies are emerging, focused upon a much more political Franco-German axis. The driving forces behind these tendencies lie first in the common commitment to the Euro and to giving it an adequate political anchorage; and secondly, in the common concern at their vulnerability to events in East Central South Eastern and Eastern Europe which the West European states do not control (and which the United States exerts increasing influence over). These pressures are leading to efforts to build an inner core within the EU and to giving that core (with or without Britain) some collective military capacity. This shows it to be a cohesive political group around the Euro, turns it towards being a West European caucus within NATO and gives it, through its collective military instruments, the potential to wield greater influ-

ence around Western Europe's immediate hinterland. A secure world-empire would need to contain such pressures.

c. *Preventing Pacific Regional Political-Economy Integration.* The greatest challenge to a consolidated World Empire in the Pacific region would come from the capacity of Japan and China and the ASEAN states to form a stable regional political-economy bloc, whether involving monetary and financial integration or a so-called 'Free Trade Area' (i.e. a zone of relatively protected investment and trade linkages). The United States, whose economic penetration of the region has been weak, has worked hard to prevent such a development. It succeeded triumphantly (with West European support) in preventing Japan from establishing a regional financial and monetary shield in the autumn of 1997 and in subsequently greatly strengthening US economic penetration of the region as a result of the financial crisis of 1997–8 and the IMF (i.e. US Treasury) policies in that crisis. But Japanese efforts to build such a financial and perhaps monetary shield have been relaunched in 2000, with support from China and with some initial success. Nevertheless, access to the US market remains sufficiently critical for so many of these economies that the US retains substantial leverage at a political-economy as well as a military-political level.

d. *Maintaining International Monetary and Financial Leverage.* A US World-Empire project would have to combine the military-political dimension with continued dominance over international monetary and financial relations. Both Japan and Western Europe have taken steps, in different ways, to protect themselves from the US use of economic statecraft in this field to exert pressure on the rest of the core.

In the West European case, this has been attempted through the European Monetary System and its successor, the Euro. The final implementation of the Euro in July 2002 will supply a very substantial shield for Western Europe, particularly when it is combined with an integrated deep and liquid EU financial system. The strength of this shield will be all the greater in that, despite all the talk of economic globalisation, the European economy is becoming an increasingly closed one, less and less reliant upon transatlantic trade.

As far as Japan is concerned, it has not made any serious attempt to turn the Yen into a significant international reserve currency or to construct a yen bloc as a shield against US economic statecraft. This would be too risky a step, threatening heavy retaliation. Instead the Japanese government has used its enormous financial power to build up very large positions in the US financial market, especially in the Treasury bond markets. Such is the size of these Japanese holdings in the dollar area that their liquidation could deliver a substantial shock to the dollar. In other words the Japanese government has acquired leverage over US dollar policy.

e. *Gaining Strategic Control over the International Division of Labour.* A fully-fledged World-Empire project would give the United States the capacity not just to use the market mechanism to assure its ascendancy in product and services markets but to acquire a more structured ascendancy in the markets of the rest of the core. Yet there is continued resistance to efforts in this direction from both Japan and Western Europe. One striking symptom of this is the instability and tension surrounding the functioning of the World Trade Organisation. Another is the series of battles raging over biotechnology industries. A third is the very important conflicts over corporate governance issues and the capacity of foreign capitals to engage in hostile takeovers of important domestic companies. A fourth is the constant efforts of the US to enlarge the reach of US domestic jurisdiction over the political economies of the rest of the core.

The general direction of US policy in these areas is that of re-engineering the internal social relations of the rest of the core in such a way as to enable US capitalism to use its huge financial resources to be able to centralise and concentrate capital effortlessly across the core in the sectors considered vital for US ascendancy. But the US is still a long way from achieving this even if it has progressed far down this road in the case of Britain.

This is the area where a capitalist world empire does seem to reach its limits as a result of the necessary continued existence of an inter-state system of parcelised legal sovereignties within the core. The capacity of other core states to use their legal and administrative autonomy as well as their economic capacity and cultural/political identities to resist pressures in this area has been demonstrated in the cases of both Japan and Germany over the last two decades. This capacity for resistance is not limitless. The Japanese financial crisis of 1998 demonstrated the US's ability to enlarge the frontier of its penetration into Japan. But it remains very great.

Assuring US Ascendancy in the Field of Production

The extraordinary advances made by the United States during the 1990s have received great impetus from both the macro-economic dynamism of the US economy in the context of continuing stagnation in Japan and Western Europe and from the perceived emergence of a new wave of growth-generating capital-intensive industries within the United States. These two factors have dazzled the capitalists of the rest of the core. But they may not be as solidly based as they seem.

There is now widespread agreement that the US boom has been fed by some features which are not only unsustainable but potentially very dangerous: a strongly speculative boom on the stock market which itself has become

an ever-more central mechanism in the American economy, a huge growth in private indebtedness, with much of the debt being tied to stock market speculation, and very large levels of US international debt and US trade deficits. A sudden shock could therefore swiftly transform the boom into a very savage financial crisis and deep recession with multiple consequences for the world economy.

Secondly, the supposed new growth motors of information industries and telecommunications may not have the long-term effects of sustained productivity gains necessary for what WST theorists call the A Phase of a new K-wave, in other words a new long boom anchored in a new US hegemony in the key productive sectors. Studies of the impact of information technology on productivity do not indicate unequivocally its capacity to be the necessary growth motor for a new long boom.

Thirdly, there are very real doubts about the new American business system of share-holder value. While this system is extremely attractive at a pecuniary level to business classes throughout the core and while it offers great opportunities for US money capital to extend its sway over productive assets in other countries, there must be serious doubts as to whether it is an effective business system for generating long-term large investments in fixed capital, geared to sustaining US innovation and productive ascendancy. If German and Japanese capitalisms can resist the seductions of dramatic short-term financial gains and maintain business systems more geared to long-term investment in innovations they may well be able to remount a challenge to the US in the productive sector quite rapidly (O'Sullivan 2000).

Coping with Future Anti-Systemic Movements

Too often overlooked in assessments of American resurgence in the 1990s has been one absolutely central feature of the period: the collapse of Communism. This has not simply led to a scramble for gain in the former Soviet Bloc, it has given a unique accent to transnational class relations because it has resulted in the disorientation and disorganisation of labour on an international scale. This has been a fundamental social basis for the extraordinary advance of the new Pax Americana or empire project.

That project's advance has required that the states and capitalist classes of the rest of the core find it relatively risk free to accent their efforts towards bandwaggoning with the US programme of unfettered capitalism, American style. The weakness of labour has made that emphasis relatively easy to achieve. But in the event of a restabilisation of labour and renewed pressure from that quarter, core and semi-periphery capitalist states will face a trade off between

making further adaptations towards the regime goals of the US and making adaptations to the domestic pressures from labour, even if, at the cost of disrupting US regimes. A process can occur somewhat similar to the processes leading to the disintegration of the Gold Standard and free trade in the interwar period as states in Europe had to cope with the rise of labour then. And, of course, core and semi-periphery states can also use the risk of a challenge from labour as a way of resisting US pressures to accept imperial regimes.

While a revival of the strength of labour may seem to many a fanciful prospect at this moment of post-modernist play and senses of endings there remain both strong sociological and economic bases for such a resurgence and also still very substantial resources of the most subversive strands of the modernist project available for challenging the narrow strip of liberal individualist universalism through which the current imperial project is ideologically legitimated.

Such a revival of the challenge from labour could also be used by core powers to advance a programme of more collegial and institutionalised world government against the unipolar, US-governance instruments which have been unchallenged in the 1990s.

CONCLUSION

WST's historical theorisation of intra-core relations has been a very great scientific achievement. It provides us with a comprehensive research agenda on this topic, even if it underplays the radical differences between the hegemony of Britain and the United States, down-grades some central features of US hegemonic capacities and rules out too glibly the possibility of a contemporary capitalist world empire. Furthermore, the work of Arrighi contains many insights and leads upon which to draw for developing a more adequate analysis of contemporary dynamics. And Chase-Dunn's and Hall's work has helped to transform WST's study of these issues from being a brilliant schema outlined by Wallerstein into a very serious scholarly research programme.

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ABSTRACT:

This paper evaluates Peter Gowan's musings on the topic of a U.S.-centered "capitalist world-empire." Gowan's heterodox concept of a "capitalist world-empire" is intellectually defensible. And his claim that U.S. hegemony is historically unique, because unlike previous dominant powers the U.S. has been able to distinctly mold the accumulation regimes and security environments of its would-be rivals in the core, is more than convincing. However, Gowan tends to overstate the degree to which the U.S. in the 1990's enjoyed a productive sector revival, rather than a mere super-inflation of dollar-denominated assets. This tendency prevents him from anticipating just how summarily the U.S. would ditch consensual approaches to managing the capitalist world-economy once the Wall Street bubble collapsed, and hence from appreciating just how fed up Western European and East Asian elites would become with the predatory character of U.S. hegemony in decay. In conclusion the paper argues that while the U.S. may have neither the resources nor the credibility to politically control the global division of labor, something akin to a U.S.-East Asian geo-economic bloc may be in the process of forming. This is so because the Chinese and Japanese economic growth models remain wedded to the underwriting of the U.S.' seigniorage privileges, and because past and present frictions between China and Japan stand in the way of tighter Sino-Japanese political coordination.

A Critical Appraisal of Peter Gowan's "Contemporary Intra-Core Relations and World-Systems Theory": A Capitalist World-Empire or U.S.-East Asian Geo-Economic Integration?

John Gulick

Peter Gowan (2004) identifies what he believes to be the defining trait of the post-1945 interstate system: the unprecedented degree to which the primary state power of the capitalist world, the United States, has exercised *political* dominance over the secondary state powers of the capitalist world, notably Western Europe and Japan. Gowan contends that a signal marker of the post-World War II global landscape has been the robust capacity of the U.S. to shape the polities and policies of its *de facto* allies and would-be rivals in the core, and that the impressive extent of its capacity to do so is what fundamentally distinguishes U.S. hegemony from previous hegemonies. Gowan roots the historically novel ability of the U.S. to get the elites of other core states to "follow the leader" and "want what the U.S. wants" in its direct and indirect molding of the regional and world security environments and accumulation structures in which these core states have been ensconced over the past 60 years. For example, in post-war Western Europe the U.S. cultivated the ascension of ruling elites committed as equally to external dependence upon U.S. troops and conventional and nuclear forces for their territorial defense as to internal social democracy; in East Asia, the U.S. orchestrated the formation of client states whose political viability was inextricably connected to privileged access to American consumer goods markets. Crucially, he adds that as its junior partners began to decisively

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threaten its economic preeminence in the 1970's and 1980's, the U.S. deployed the instruments by which it politically dominated the capitalist world to, as he puts it, "prepare the way for its hegemonic restoration in the (capital-intensive) productive field" (Gowan 2004). For example, the U.S. reignited confrontation with the Soviet Union so that its uneasy Western European junior partners would more willingly tolerate the unilateral swinging of the U.S. dollar, a technique it used to foil Western European productive investment planning. In East Asia, the U.S. leveraged its junior partners' ongoing reliance on the U.S. export market to negotiate bilateral "managed trade" agreements in semiconductors and other innovative productive sectors. Gowan claims that by the mid-to-late 1990's, the strategy of the U.S. to resuscitate the fortunes of its high value-added sectors had proven its worth. The pivotal role the *political* dominance of the U.S. played in ostensibly reviving its hegemony inspires Gowan to ponder a highly radical possibility: that a *capitalist world-empire*, with the U.S. occupying its commanding heights, may well be in the process of forming. After convincingly demonstrating that the analytic construct of a capitalist world-empire is neither conceptually incoherent nor logically impossible, Gowan goes on to enumerate the conditions that would have to prevail in order for the U.S. to become a "capitalist world-emperor," including the prevention of deeper European political integration and the prevention of East Asian financial and monetary cooperation.

In underscoring the unusually potent capacity the U.S. possessed—and to a lesser degree, still possesses—to forge the security contexts and the political economies of the secondary state powers, Gowan hits the target. However, with respect to both the pre-1970 period (to which he gives scant coverage) and especially the post-1970 period, Gowan misrepresents exactly *how* the U.S. commingled its hegemonic advantages to keep Western Europe and East Asia politically complaisant. At the necessary risk of oversimplifying, Gowan's wont is to soft pedal how much Western Europe's and East Asia's ruling classes regarded U.S. leadership of the First World as benevolent up until the early 1970's, and to understate the degree to which its primacy since then has taken on a malevolent, parasitic cast. For example, Gowan is on target when he notes that the hegemonic U.S. has only erratically (at best) hewed to the multilateral free trade gospel it regularly preaches to others. But he does not sufficiently underscore that in the 1950's, and to a lesser degree the 1960's, routine departures from the practice of multilateral free trade redounded to the *benefit* of the junior partners of the U.S. in Western Europe and East Asia, who were permitted tariff barriers, capital controls, and prohibitions on foreign direct investment (in the case of Japan) in the name of building up economically vigorous and socially stable anti-communist camps on the flanks of the Soviet Union

and Mao's China.[1] Gowan is right to imply that after such watershed events as its unilateral scuttling of the gold-backed dollar standard, its humbling military and political defeat in Vietnam, and the emergence of its bulging merchandise trade deficit, the U.S. in the 1970's and thereafter consistently "imposed international regimes on other core powers and…[stood] above its own international regimes and [adapted] them to suit its perceived interests" (Gowan 2004:9). However, Gowan does not sufficiently stress the flagrant flouting by the U.S. of multilateral conventions whenever these conventions interfered with its perceived interests is an indicator of the weakness, not the strength, of U.S. hegemony—even when the U.S.' junior partners have had no choice but to abide by the errant behavior of the "hyperpower." For example, the U.S. has condemned the fiscal profligacy of its junior partners while inducing them to finance its own mountainous current account deficits because for the past 20 years the U.S. has been a net debtor—surely an indicator of hegemonic weakness, not strength. This is all the more so because such blatant hypocrisy has come at the expense of a gnawing loss of American legitimacy. Gowan is too mesmerized by the apparent fact that the U.S. can get away with being a predatory hegemon, and not attentive enough to the legitimacy crisis roiling beneath the misleadingly calm surface waters.

One possibility why Gowan ends up downplaying both the charitableness of U.S. hegemony in the pre-1970 period and its rapaciousness in the post-1970 period, is that he entirely leaves out discussion and analysis of U.S. domestic politics—namely, how the changing substance of policy alliances between the U.S. state and different sectors of U.S. productive capital eventually prodded the U.S. to beggar its European and East Asian neighbors while simultaneously voicing bromides about the universal virtues of open markets. In the 15 or so years after World War II, when even its smaller, backwards manufacturing firms could meet or beat world market prices of production, the U.S. state had considerably little trouble cobbling together domestic political coalitions in favor of rebuilding Western Europe and Japan by granting their economies and firms various exemptions, favors, and privileges. When push came to shove, even the isolationist wing of the Republican Party (the so-called "Taft" wing) reluctantly lined up in favor of economically aiding the post-war allies of the

1. In tracing the past, present, and future of U.S. hegemony, including the possibility of a U.S.-dominated capitalist world-empire, Gowan entirely leaves out discussion and analysis of how U.S. domestic politics has shaped and will shape the trajectory of its dying hegemony—at his peril, I would argue.

U.S. and their capitalist enterprises, because it could all be sold as part of the heroic twilight struggle against "godless communism" (Block 1977). But in the wake of the long-term decline of U.S. manufacturing competitiveness (especially in relatively labor-intensive sectors), followed by the demise of the Soviet Union, the U.S. state could no longer count on the support of smaller, backwards productive capital for even the bastardized, almost mercantilist form of "free trade" it espouses, much less for the kind of "generosity" it extended to Western Europe and East Asia in the glory years of its hegemony. At the same time, a steadily growing tide of wage goods imports from East Asia (namely China) are actually pivotal to the prolongation of U.S. world-systemic primacy, not in the least because a big portion of East Asian (and Chinese) export revenues are recycled back to the U.S. as government bond purchases, enabling the U.S. to finance its "pre-emptive wars" in Central and West Asia in particular and to ramp up federal spending while cutting corporate and upper-income taxes in general. U.S. hegemony (such as it is) is thus caught between a rock and a hard place, between the lodestone of U.S. neo-imperialism in East Asia (*i.e.*, retaining East Asia's fealty to the pure dollar standard) and an increasingly vocal domestic constituency that favors a combination of East Asian currency revaluation and "America first" protectionism—as the present Bush the 43rd Administration is uncomfortably discovering.

To be sure, in a narrow sense present European and East Asian disenchantment with predatory U.S. hegemony is clearly a byproduct of the aggressively unilateralist foreign policy posture assumed by the Bush the 43rd Administration, epitomized by the adoption of the "pre-emptive war" doctrine and the Anglo-American invasion and occupation of Iraq. Given that Gowan originally drafted "Contemporary Intra-Core Relations and World-Systems Theory" before the likes of Cheney, Rice, Rumsfeld, and Wolfowitz took the reins of U.S. foreign policy, it might seem anachronistic and hence absurd to fault Gowan for failing to discern just how dissatisfied with U.S. dominance Western Europe and East Asia have become. But the recent unilateralist and bellicose foreign policy turn of the U.S. is not reducible to the distinctive ideological and strategic vision pitched by the hawks and the neo-cons in and around the National Security Council of Bush the 43rd and the Pentagon, nor to the pecuniary interests of those sectors of capital most closely linked to the Administration (*i.e.*, the hydrocarbon energy transnationals and the armaments and security service contractors). The crisis of world-systemic leadership into which the Bush 43rd Administration has thrust the U.S. is inextricably tied to the crisis of the ultimately doomed financial expansion of the mid-to-late 1990's, an expansion piloted by nominally multilateralist predecessors of Bush the 43rd. When the unsustainable dot-com, NASDAQ, and Dow Jones bubbles predictably collapsed in 2000 and 2001, the U.S. could no longer forestall its inevitable decline by attracting Western European and East Asian purchases of corporate securities in order to cover its yawning balance of payments deficit. With the pinpricking of the bubbles, the probability that the U.S. would attempt to defend its world-systemic primacy by leaning on its lone remaining strength—its unmatched ability to project force in geostrategically significant "trouble zones" outside the Global North—crossed a critical threshold.[2]

What is the relevance of recognizing that the recent foreign policy of the U.S. is a determinate result of the exhaustion of a mode of hegemony predicated upon the extreme overvaluation of financial assets? In essence, understanding that the former was an entirely predictable outcome of the latter enables us to detect multiple weaknesses in Gowan's thesis. It might not be reasonable to expect the Gowan of some three years ago to accurately foresee the degree to which the U.S. would embrace a brazenly unilateralist and bellicose foreign policy, or the level of antagonism between the U.S. and its junior partners in the capitalist world which has accompanied this foreign policy shift. However, it is indeed fair to criticize the Gowan of three years ago for neglecting to notice the degree to which the hegemonic resurgence of the U.S. in the 1990's was jerrybuilt upon a Wall Street house of cards. By implication, it is equally fair to criticize him for not appreciating the likelihood that the U.S. would resort to strong-arm tactics to shore up its embattled hegemony when the house of cards ineluctably came crashing down, jeopardizing the legitimacy Western Europe and East Asia had grudgingly extended it during the 1990's when multilateral consensus about the merits of "globalization" was in vogue.

Gowan correctly asserts that the U.S. enjoyed a relative power revival in the 1990's, but he overestimates the extent to which the reinvigoration of U.S. productive capital paralleled and was bolstered by this power revival. The aforementioned bursting of the bubbles and the ensuing revelation of widespread accounting fraud put the lie to the myth that U.S. productive capital had vanquished the Western European and East Asian competition in cutting-edge

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2. While the constitutionally ambiguous election of Bush the 43rd and the attacks of September 11 clearly accelerated the rate and heightened the zeal with which a Pentagon solution to the balance of payments impasse was implemented, arguably that wing of the U.S. ruling elite wedded to the "Washington Consensus" during the go-go 1990's might have been cornered into seeking a similar solution. Klare argues that while the attacks of September 11 provided the Bush the 43rd Administration with a viable rationale for quickening the pace at which the U.S. exerted its military muscle in Central and West Asia, this process was initiated by the Clinton Administration. See Klare (2003).

sectors such as advanced business services, high-technology equipment, and telecommunications (Brenner 2002:129–130; Elliot 2003; Stiglitz 2003). Gowan acknowledges that the apparent health of U.S. high value-added enterprise was boosted by liquid capital fleeing East Asia after the meltdown of 1997–98, but he does not take the next step and dissect how the late 1990's securities bubble, aided and abetted by balance sheet gimmickry designed to meet the quarterly growth expectations of investors, masked an actual downturn in U.S. corporate profitability. Gowan's partial mistaking of the Wall Street bubble for a real boom leads him to overestimate the positive contribution the productive sector revival made to the girding of U.S. hegemony in the 1990's, and correspondingly to underestimate just how much its hegemony during this period was propped up by the world-economy's continuing allegiance to the pure dollar standard—backstopped in the last instance by the near-monopoly of the *U.S.* over the military means of destruction. Likewise, Gowan's misapprehension of the speculative and illusory character of U.S. economic performance during the 1990's prevents him from understanding just how fragile U.S. hegemony is, and from anticipating just how summarily the U.S. would shed the benign and cooperative aspects of capitalist world leadership once global investors began to exit Wall Street.

Because he does not realize just how much the hegemonic restoration of the *U.S.* in the 1990's was based upon the retention of seignorage privileges that have now been gravely imperiled by the demise of the Wall Street bull market, Gowan tends to be too sanguine about the prospect that the U.S. will transcend the normal oscillation of great power rise and fall by shepherding both Western European and East Asian big capitals into the creation of a capitalist world-empire (although admittedly, Gowan does not seem to consider this a high probability outcome). One high-profile response the U.S. has taken to the collapse of the bubble is to aggressively mount trade wars aimed expressly at the big businesses of the secondary state powers (in the aerospace and steel industries, e.g.), which hardly inspires their confidence in the U.S. as a universal champion of their right to accumulate capital (DuBoff 2003). In reaction to the naked unilateralism U.S. ruling elites have employed *out of necessity* in the post-bubble years, almost *all* of the erstwhile allies of the U.S. in Western Europe and East Asia are eager to gain a qualitatively new quotient of freedom from the structural power of the malign hegemon, despite whatever lip service they pay to the contrary. What sets them apart from one another is not varying amplitudes of subjective willingness to follow the U.S, but rather varying amplitudes of objective capability to resist doing so. East Asia's objective capability falls well short of that of Western Europe, owing largely to its unshakeable reliance on both the basic scientific research infrastructure and the export market of the

U.S., the latter a stubborn half-century curse that makes it precariously vulnerable to the maneuverings of the Federal Reserve and Treasury Department of the *U.S.* (as Gowan wisely notes).[3] And to put a dialectical spin on it, what additionally distinguishes the erstwhile allies of the U.S. from one another is the objective capability of the U.S. to twist their respective parries to its own advantage (i.e. to the prolongation of its own dying hegemony). On this score, East Asia's counterthrusts boomerang to its own disadvantage much more so than those of Western Europe do. For example, the U.S. gingerly appeases the demands of Japanese neo-nationalists for offensive rearmament (in violation of Japan's post-war "peace constitution") because it suspects that developments in this direction will stand China's hair on end and raise barriers to independent monetary, financial, and geopolitical cooperation in East Asia (Suryanarayana 2003). In other words, although Gowan sagely understands that the U.S. has been able to hang on to its world-systemic primacy by gaming the rules of intra-core relations in a manner that constrains the strategic options of its would-be rivals, he does not analyze sufficiently how the U.S. has been able to cushion the negative effects of its would-be rivals exercising what they believe to be autonomy-enhancing initiatives—or where the U.S. will *not* be able to cushion these negative effects in the near future.

I do concur with Gowan's argument that the notion of a capitalist world-empire is neither intellectually dissonant nor hypothetically implausible. Gowan is absolutely on point when he argues that a putative "capitalist world-emperor" need not depose the formal sovereignty of other economically advanced and demographically weighty states, only that it suppress through coercion, persuasion, and (most importantly) rigging the rules of engagement initiatives that imperil its political centrality. World-systems scholars such as Wallerstein (1999) and Arrighi and Silver (1999:271–289) have recently lent credence to the idea that historical capitalism may be reaching something of an impasse, and that in coming decades long-established patterns of hegemonic succession may no longer apply. For this and other reasons, Gowan's willingness to at least entertain the prospect of a capitalist world-empire with the U.S. at its helm seems perfectly justified. But Gowan's incomplete interpretation of exactly how the U.S. used its hegemonic advantages to lengthen its moment in the sun prevents him from fully recognizing just how unlikely it is that the U.S. will be up to the task of simultaneously cordoning both Western Europe and East Asia into a truly global capitalist world-empire (i.e. one congruent with the scale

3. On the stubbornness of this half-century curse, see Cumings (1999:205–226).

of the global division of labor itself). In my estimation, the disruption of past patterns of hegemonic succession will not yield a genuinely planetary capitalist world-empire with the U.S. sitting at its apex. Rather, I forecast that we will witness the rearrangement of the capitalist world-economy's current tripolar setup into two well-defined and competing, but not wholly exclusionary, blocs: the U.S. and East Asia, on the one hand, and Western Europe (especially the Franco-German core of the European Union) and Russia (especially Russia west of the Urals), on the other.

Each of these blocs will feature characteristics vaguely resembling those in Gowan's capitalist world-empire, but neither of them will envelop the complete span of the global division of labor. The contours of these blocs are already faintly evident and will harden over time as the U.S. confronts two inescapable realities. The first is that Europe poses the most salient threats to the twin pillars of the waning world-systemic primacy of the *U.S.* The very recent emergence of the euro currency threatens the exceptional status of the dollar in international monetary arrangements, credit markets, and trade transactions (Henderson 2003; Sommers 2003) and the increasing Franco-German disaffection with NATO threatens the capacity of the U.S. to fracture conceivably autonomous security structures in wealthy zones of the world-economy by means of what Gowan aptly calls "hub-and-spokes" alliance networks.[4] What is more, fearing that the secular elevation of the euro will lead to permanent loss of export markets and permanent stagnation, the EU could very well respond by scrapping the fiscal strictures of the Stability and Growth Pact and gearing its economy toward internal accumulation, in the process offering other regions of the world-system a coherent blueprint of an alternative to the neo-liberal model of economic management that unevenly rewards U.S. rentier capitalists.[5] On top of all this, a durably stronger euro carries frightening geopolitical implications for the U.S.: it will allow Western and Central Europe to wean itself from cheap oil controlled by U.S. client states and protectorates in the Persian Gulf and to pay for more expensive oil imported from Russia, which in turn will induce Russia to deepen the diplomatic (and possibly military and security)

4. On the growing irrelevance of NATO to the Franco-German core of the EU, even prior to the Anglo-American unilateralist assault on Iraq, see Kupchan (2002). In a separate article Gowan (2003) more thoroughly lays out the "hub-and-spokes" system of U.S.-centric international relations.

5. In fact, there are already early indications that such a tack is underway in the EU. See Thornton (2003).

bond it forged with the Franco-German core during the run-up to the Anglo-American invasion of Iraq.[6]

The second reality is that East Asia is home to the two states that possess the liquidity necessary to underwrite the mammoth balance of payments deficit of the U.S. (Japan) and the growth rate necessary to accommodate the expansionary imperatives of the transnational corporations (TNC) of the U.S. (China), but do not possess the political unity necessary to resist the concerted campaign of the U.S. to open their financial markets and producer services sectors to the predatory impulses of Wall Street, a crucial facet of the larger campaign of the U.S. to retain some semblance of its current seignorage privileges. That the U.S. can and will turn to East Asia to ward off the coming European challenge is the more-or-less successful result of more than 50 years of U.S. foreign policy in the region, archly designed with the purpose of foiling economic cooperation between Japan and China for fear that such cooperation would lead to political trust and partnership between the two states. The hidden history of post-World War II state formation in East Asia reveals that U.S. executive administrations from Truman to Bush the 43rd have long stymied trade and investment linkages between Japan and China independent of U.S. auspices. In the early 1970's, when mounting frustration with nascent U.S. protectionism spurred the Japanese government and Japanese firms to pursue deeper trade and investment ties with post-Cultural Revolution China, the U.S. undercut the trend by restoring diplomatic relations with China and inviting China to rejoin the capitalist world market under U.S. escort (Halliday and McCormack 1973:131, 212–213; Schurmann 1974:556–558). In the decade that followed the negotiation of the Plaza Accord (1985–1995), when the skyrocketing value of the yen relative to the dollar unleashed a tide of foreign direct investment in the semi-periphery and periphery of East Asia by Japanese TNC's, the pegging of Southeast Asian currencies to the plummeting dollar ensured that most of this burst of Japanese investment ended up in Southeast Asia, not mainland China (So and Chiu 1995:222–223). Moreover, when U.S. hysteria about the Japanese economic threat reached its peak in the late 1980's and early 1990's, the U.S. exploited the tragedy of the Tianenmen Square massacre to slow the flow of foreign direct investment in China (So and Chiu 1995:272). By the time foreign direct investment began to gush back into China at an unprecedented rate, Japanese firms were coping with the unpleasant aftereffects of the collapse

6. On how and why such a partnership between the EU and Russia would pose a deadly challenge to U.S. hegemony, see Wallerstein (2002) and Gowan (2003:47).

of the Japanese real estate bubble, itself a predictable outcome of the yen revaluation foisted on Japan nearly ten years before (Brenner 2002:155).

What was becoming clear as U.S. hegemony first began to hit the skids in the early 1970's has become a truism today: while East Asia is a more formidable productive sector challenger to the U.S. than is Europe, the geopolitical atmosphere of East Asia is more readily manipulated by the U.S. than is that of Europe. The principal tool for so doing is the U.S.-Japan security alliance, long the fulcrum of U.S. hegemonic power in East Asia and formally renewed in 1999 (Feffer, 2000). On the one hand, the redrawn agreement essentially perpetuates the subordination of Japanese defense policy and Japanese security itself to the global and regional aspirations of the U.S., stoking Chinese acrimony toward Japan (Johnson 1999:246). On the other hand, in partial deference to festering Japanese neo-nationalism, the guidelines of the refashioned pact also permit Japan's so-called "self-defense forces" to roam and conduct missions beyond Japanese shores, thus raising Chinese hackles about Japanese offensive rearmament (Feffer 2000:51). The result of this strategy, a persistently tenuous bilateral relationship between China and Japan, fatally compromises their ability to institutionalize joint cooperation in the realms of monetary, financial, and defense policy, undermining the possibility of East Asian multilateralism inimical to U.S. regional and global designs.

A prominent concern of the U.S. is that China and Japan, whose respective central banks are the top two purchasers of U.S. Treasury bills and hence the top two underwriters of U.S. government debt and sponsors of the global militarism of the U.S., continues to hold the lion's share of their bottomless currency reserves in dollar-denominated liquid assets (Wolf 2003). So long as China and Japan keep their end of the bargain and play along with the *de facto* dollar standard that exempts the U.S. from living by the precepts of neo-liberal austerity that it endorses and tries to impose on all others, the U.S. tolerates Chinese and Japanese economic policies that at least partially appear to endanger the hegemonic imperatives of the U.S. but in fact do not. Many commentators suggest that China, aided and abetted by the stampede of U.S. TNC's that are relocating or subcontracting labor-intensive production to China, is chipping away at the world-systemic primacy of the U.S. by keeping the dollar-yuan exchange rate artificially low, dumping mountains of low-cost consumer goods on the U.S. market, and boring out what remains of the U.S. industrial base (Hiebert 2003). However, while a few backwards sectors of U.S. productive capital may be harmed by the precipitous emergence of China as the "workshop of the world," if anything U.S. hegemony has been strengthened, not mitigated, by this recent development. First and foremost, this is because most of the revenues deriving from China's colossal merchandise trade surplus with the

U.S. are plowed into dollar-denominated bonds (both public and corporate) and securities, thus reinforcing one of the two remaining levers of U.S. world-systemic primacy, the *de facto* dollar standard. What is more, the artificially low dollar-yuan exchange rate allows U.S. TNC's to set up shop in China cheaply, U.S. productive capital to buy inputs made in China cheaply, and U.S. firms that employ workers who buy consumer goods made in China cheaply to hold down the wage bill—all of which eases stress on the thin profit margins of U.S. productive capital (Restall 2003).[7]

It naturally follows from the formula of U.S.-East Asian geo-economic integration outlined above that the U.S. expresses little or no consternation about the rising trend of Japanese TNC's relocating or subcontracting their labor-intensive production to China. Far from representing the construction of an autochthonous East Asian accumulation bloc centered on Japan and China, Japanese FDI in China enlarges the pool of profits ultimately invested in dollar-denominated liquid assets. Whether the growing streams of semi-finished and finished goods assembled in China under the auspices of Japanese TNC's are sent to Japan, the U.S., or a third destination, a big portion of the greater mass of export revenues consequently accruing to China end up in dollar-denominated financial instruments and buttress U.S. seignorage privileges. And because the U.S. is, in the last instance, the guarantor of the dollar-yuan protocol that enables strapped Japanese TNC's to restore their world market competitiveness by utilizing China as a low-wage, medium-skill export platform, Japanese political elites are obligated to yield on at least some neo-liberal economic reforms they are loath to adopt. For example, with Prime Minister Koizumi's blessing, Japan's top economic ministry has permitted titanic Wall Street investment houses to snap up shares in Japanese banks heavily bogged down with non-performing loans (Ibison 2003). Among other things, this will augment the influence that U.S. finance capital has over the restructuring of troubled and insolvent Japanese corporations—including their possible consolidation, sale, or closure, as well as changes in their mode of governance (Ibison 2003).[8] An increase in the inventory of debt-compromised economic resources that Wall Street has within its grasp certainly has positive ramifications for the *de facto* dollar standard and thus the prolongation of U.S. hegemony, as does

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7. According to one estimate, 75 percent of China's export growth in recent years can be attributed to TNC's using China as a low-wage and low-and-medium-skill production platform in their respective global value-added chains.

the piecemeal remodeling of post-war Japanese capitalism to fit Washington Consensus standards more broadly.

To bring the analysis full circle, what adds punch to the U.S. having so much sway over the "two steps forward, one step back" neo-liberalization of Japanese capitalism is Japan's continuing foreign policy slavishness toward and security dependence upon the U.S., which reproduces China's suspicion toward Japan. Enmity between China and Japan effectively bars the two giants of East Asia from erecting the EU-style monetary architecture that would shelter Japanese banks specifically and Japanese capitalism more generally from the predation of U.S. financial institutions. In sum, while Gowan adeptly enumerates the scenarios the U.S. would have to avoid in order to transform its global monetary, financial, and geopolitical dominance into a *bona fide* capitalist world-empire, he neglects to note that Western Europe is progressively frustrating these scenarios, whereas East Asia is not. Thus Gowan is unable to detect the subtly shifting lineaments of alliance and rivalry in the capitalist world-economy at present, and to predict the emergence of the U.S.-East Asia and the Western Europe-Russia blocs that I envision forming.

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ABSTRACT:

Gowan challenges the usefulness of world-system theory in accounting for the emergence of an American world empire. His argument is based on one fundamental assumption, that of overwhelming U.S. power in the contemporary period. The assumption, however, is flawed. The U.S. is clearly an uncontested military superpower, a world leader with the ability to project its power and interests around the world. But its economic hegemony is in decline, and it is no longer the overwhelming presence it once was in the world-economy. Moreover, Gowan is unable to support his thesis that the U.S. is becoming an empire over Europe. Although the U.S. occupation and administration of Iraq is an example of colonial imperialism, there is no evidence to show that the U.S. has begun to establish a core-wide empire. On the contrary, U.S. political control over Europe has declined to its lowest level in the post-WWII period. The persuasiveness of world-system theory in explaining the changing global political economy remains strong.

American World Empire or Declining Hegemony

Terry Boswell

Gowan presents us with three questions about world-system theory. These are interesting and important questions for debate, and we should thank him for raising them. All three questions hinge upon one empirical assumption: that the United States has become such an overwhelming global power that it defies the predictions and precepts of the theory. He provides no evidence to support this assumption, but it is crucial to his argument. The first question about the persuasiveness of the theory presumes the answer to the second question, that the reach and depth of the power of the U.S. is not captured by the theory. Likewise, question three about the conceptual validity of no modern core-wide empires presumes that U.S. power has expanded to such an extent that its relationship to the rest of the core is imperial rather than hegemonic. To be sure, Gowan discusses other issues, such as the prescient idea that France would lead the opposition to an American imperium. Nevertheless, the assumption of overwhelming U.S. power is the key to his entire argument. We can argue about the theoretical questions, but first we have to examine the empirical assumption. If the assumption is incorrect, then the rest of the argument is unsound. Hence, I will examine the comparative evidence of U.S. military and economic power, applying what this means to theories of world leadership, hegemony, and empire.

When one talks of the power of nations, generally this comes in two forms: military power and economic power. Of these two, Gowan only focuses on military power. Yet even here, he provides no measures for his argument about U.S. supremacy; it is only assumed. To be sure, with the fall of the Soviet Union there has been no real military competitor to the U.S. for world leadership.

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Leadership, however, is not the same as hegemony, and we need to make a distinction between the two. Leadership is mainly a military concept that means the ability to project one's power and interests around the world (Modelski and Thompson 1988). World leaders will have a concentration of weaponry with global reach and a sizable difference over their nearest competitors. Hegemony has a more economic focus. Perhaps the best description of hegemony comes from Gramsci (1971), who explains how the dependence of economic growth on profitability gives capitalists a hegemonic position over state and cultural institutions even without direct control. In world-system theory, a hegemon is a state that predominates over the world-economy to such an extent that the rest of the world is dependent on the growth of the hegemon (Wallerstein 1984). It sets 'universal' rules that apply to everyone equally, but which match its own interests. These 'universal' rules and the international institutions that enforce them constitute a new world order. World orders are the agreed upon rules of international relations represented in treaties or international organizations, though these often only symbolize a more extensive general understanding and normative rules enforced by reciprocal or isomorphic interaction (see Boswell and Chase-Dunn 2000; Holsti 1991; Meyer 1987, 1999). All hegemons are world leaders, but not all leaders achieve hegemony.

Modelski and Thompson (1988) have measured world leadership in terms of naval capacity with global reach over the last 500 years. They show a U.S. world leadership emerging during WWII with a near monopoly on sea power with global reach, which deteriorated steadily up to the 1970s, where it leveled off at about 60% of the total. In an update of the sea power research, Joshua Kane found that U.S. global reach remains at 60% of the total in 2000 (Kane 2002; see also Boswell, forthcoming). However, there is one dramatic difference: with the demise of the Soviet Union, the U.S. no longer has any competition (for now). Not since holding a nuclear monopoly in the forties has its relative position been as strong. At that time the US pushed through a series of international institutions—UN, NATO, IMF, etc.; now it is doing the opposite.

What are we to make of this? Clearly, the US is the world leader, an uncontested superpower. There are many aspects to being a lone superpower that give the U.S. leverage in the world economy, but there are also aspects that are a burden. Gowan only considers the possible leverage, ignoring the burdens. The leverage and benefits of military power are greatest at the beginning, in the postwar aftermath. This is when international institutions are created to enforce the 'universal' rules of the new world order. The theory of hegemonic decline, however, includes the argument that one process that causes decline is the military overextension of the hegemon (Kennedy 1988). While all core countries benefit from the order provided by the superpower, they can free ride on the costs.

The more equal the economic competition becomes as the hegemon declines, the more likely it is to use its superior military force for narrow national gains through imperial goals, rather than through the universal goals associated with hegemony. There is no obviously correct choice: pursue national gains and risk retaliation from core competitors, or pursue universal goals and risk core competitors gaining more but paying little of the cost. Thus, we are likely to see a declining hegemon bounce between these opposing strategies or try to combine them in an attempt to hang on to core markets, which are its most important trading partners.

For instance, despite the fall of the Soviet Union, the U.S. maintains a huge nuclear arsenal, troops in Europe, and even an expanding NATO. These have all outlived their usefulness, which primarily was to keep Europe tied to American interests by deterring the Soviets. These artifacts of the Cold War are costly burdens for the U.S. but difficult to dispose of without risking additional loss of influence in Europe, as evidenced by the conflict over the war in Iraq. Contrary to Gowan, who sees America becoming an empire over Europe, I would argue that the fall of the Soviet Union has given Europe its greatest freedom from American military leverage since World War II. The war with Iraq, where the vast majority of Europeans opposed the war and only Britain provided major support, would seem to prove the point.

Has there been a restoration of U.S. hegemony in economic terms as there has been a restoration of U.S. military world leadership? We will look at data from two sources, Maddison's (2001) long-term economic measures and a recent international comparison produced by the US Dept. of Energy (n.d.). In Boswell and Chase-Dunn (2003), we present DOE data from 1999 on the percentage of the world economy held by each of the major powers of the world along with different world regions. It is clear that the U.S. is by far the world's largest national economy. But, it is also clear that the U.S. is not an overwhelming presence at 28% of the total. If we consider the European Union a viable unit, then it has 30% of the total. There are thus two world economic powers of about equal size. After the US and EU, there is Japan, which is less than half as large at 12%, and China at 4%. Over the last decade, East Asia has been the fastest growing area (excluding Japan) with the rest of major countries losing share with two big exceptions. Even though individual states lost share, the EU gained by an increase in membership. The other exception was the US, whose share rose about 1.5% during the late nineties. Arrighi and Silver (1999; see also Arrighi 1994) point out that this growth was led by the financial sector, which has declined dramatically in the last few years. Nevertheless, there was an upturn in the late nineties that Gowan and others might consider to be the beginning of a new ascent. Whether this is a major change or a slight aberra-

tion in a long-term trend requires a long-term perspective, which is what world-system theory excels at.

We can derive a historical pattern using the Maddison data (2001). The Maddison and the DOE data sets differ because Maddison estimates the missing cases. Therefore, the U.S. and other countries' share of the total will be smaller because the total is larger (i.e., he has a larger denominator). For example, the DOE data set indicates a 28% share of world GDP for the U.S. in 1999, whereas Maddison's data set shows a 22% U.S. share in 1998. But otherwise, the relationships of the countries at this time are the same.

With most of the core in tatters, during World War II the U.S. share of the world economy skyrocketed to 35%, according to the Maddison data (see Chase-Dunn et al. 2003). Although the war-time peak was short-lived, the U.S remained hegemonic for the next twenty-five years. The U.S. share of world GDP by this measure had fallen in a series of steps to around 22% by 1998. Wallerstein (1984) and most other world-system theorists argue that U.S. hegemony has been in decline since the 1970s. Decline is a relative thing. It is relative to one's own economic performance, and in the 1970s and 80s, U.S. productivity growth slowed down. More importantly, it is relative to other countries. With the rebuilding of Europe and Japan, decline was inevitable. However, decline was not smooth. There were several short periods in which the U.S. share went up, in the late forties, the late sixties, the late eighties, and then the late nineties. After every upturn, there comes a recession, which we can see from a long-term perspective.

Gowan also argues that the U.S. is fundamentally different from prior hegemons in that it dominates the world economy to a far greater extent than its predecessors. Again, however, he offers no empirical evidence. According to the Maddison data set, Britain had a 5% share in 1820, 9% in 1870, and 8% in 1913 (Maddison 2001). In comparison to the U.S., these would be far less hegemonic positions. Chase-Dunn et al. (2003) seem to confirm his argument in regard to share of the world economy, although they compare GDP per capita and find the U.S. and Britain to be much more similar. Britain was far more productive than the rest of the core in the 19th century. However, this is looking at the past in terms of the present definition of the state. In the 19th century, hegemonic competition consisted of colonial empires, of which the largest was the British Empire. If we look at the share of the world economy of the whole British Empire, we get a very different picture. If we add just India, Australia, New Zealand, and Canada to Britain's share of world GDP, then the numbers are 21% in 1820, 21% again in 1870, and 16% in 1913. Note that these colonies are in the denominator for the world total that I and others use. Note also that Britain could call upon the resources of its colonies to fight wars. We do not have data

for the Napoleonic Wars, but I imagine there was a huge spike in Britain's share of the world economy during the blockade, perhaps similar to what the U.S. saw during World War II. Then, a share around 20% is similar to the U.S. experience, and this doesn't count all of Britain's colonies.

This is not to say that every hegemony is the same. On the contrary, we should expect differences. We should expect each hegemon to learn from previous ones and build upon the infrastructure that they have created. The British built upon the Dutch hegemony, and the Americans took over from the British and brought them in as junior allies. Therefore, we should expect each hegemony to be larger than the last one. It may get to the point where no one country can be hegemonic. Rather, it might require a multi-national state, such as the E.U., NAFTA, or the U.N.

Hegemony is more than the size of a country's economy. If data and time were available, we would also look at things such as where the major innovations are coming from, which countries have companies that are leading their industries, who is setting the standards for different industries around the world, and which states are writing the rules that others are following. Nevertheless, all of these factors tend to be tied up with the size and influence of a world power. So, size matters. The ability to organize a multinational state (such as the E.U.) is itself a major innovation for the next hegemon. However, this will require future research and data that is not yet available. What we can demonstrate at present is that the U.S. is in decline and, for the foreseeable future (the next 20–30 years), only the E.U. is a viable contender for hegemony. Although not yet as widely accepted, the Euro offers the first competitor to the dollar as a world currency. Not to mention, the U.S. and its European ally have pledged to prevent any other country from becoming a viable competitor.

What can we conclude about U.S. world leadership and hegemony? During the first twenty-five years of the post World War II period, the U.S. held both leadership and hegemony. For the next twenty-five years, both were in decline. Throughout this period, the U.S. faced a constant challenge to its world leadership from the Soviet Union in the bipolar Cold War. Now that the bipolar Cold War is over, U.S. world leadership is unchallenged. However, the world economy has become increasingly bipolar between the U.S. and the E.U.

Finally, Gowan argues that the U.S. is becoming an empire over Europe. I have drawn a distinction between leadership and hegemony. Let me draw a distinction between hegemony and empire. There are two types of empires: colonial empires and core-wide empires. Typically, in a colonial empire, a core state takes over territory in the periphery and maintains direct political control through a colonial administration or explicit indirect control of the local administration. Thus, we have the British Empire as the classic example, but most European

states were empires; even Belgium had a colony in Africa. American occupation and administration of Iraq will be a case of colonial imperialism. Maybe it would be a benign colony, but the relationship will be colonial nonetheless.

A core-wide empire is when a core state is able to directly administer other core territories or set up explicit client states. Nazi Germany was the last attempt at a core-wide empire, using a combination of direct incorporation and client states (such as Vichy France). This is the type of empire that Wallerstein (1974) described as incompatible with modern capitalism. Empire is very different from hegemony, as we have defined the latter above. Empire requires explicit control, while hegemony requires only dependency. Of course, there are various forms of neo-imperialism utilizing control that is not explicit, which blurs the distinction between empire and hegemony. But, we can start with analytically distinct categories. The problem is Gowan defines empire with the criteria that apply to hegemony. He draws from various sources to change the meaning of empire, eliminating the explicit political control. In its place, he provides a very good example of how hegemony works.

For instance, let us take some simple examples of how an empire-system could work. If the empire state can shape the geopolitical environment of other core states in such a way that their security is threatened in ways that require the military resources of the empire state, these other core states will want what the empire-state wants. Or if the other core states' financial sectors' stability is bound up with the safety of their loans to empire-state companies and individuals whose prosperity in turn hinges upon rising prices on the empire-state's securities markets, those other core states will want what the government of the empire-state wants: a priority for stability on the empire-state's financial markets. Or if other core states' capitals view their continuing expansion as dependent upon further opening of 'emerging markets' in the semi-periphery and if the most potent instrument for such opening is the empire-state's manipulation of the international monetary and financial regime, the other core states will want what the empire state wants.

This is exactly what is meant by hegemony. Consider the U.S. following World War II. The rest of the core was dependent on the U.S. for their security throughout the Cold War. Likewise, the dollar was the key to financial stability in the world economy. This was the period of peak U.S. hegemony, which has become unstable since the fall of the Soviet Union has ended the security threat and the rise of the Euro now provides an alternative to the dollar. What remains is an overpowered military that leaves the U.S. in a position of world leadership, but the hegemony has declined.

We can get lost in debates over terminology among ourselves and lose our audience. America is increasingly imperialistic and is expanding its empire in

the Middle East. We can and should condemn American imperialism. But, a colonial empire is not the same thing as a core-wide empire. The U.S. now has less control over Europe and Japan than during the Cold War. NATO is no longer our main military force, and Russia is an ally for Europe. The isolation from Europe that Russia suffered from siding with Serbia over Kosovo has been negated by siding with France and Germany over Iraq. Contrary to Gowan's claim of a budding core-wide empire, U.S. political control over Europe has declined to its lowest level in the post-War period. What does this mean for the future? The war in Iraq has split Europe along several lines. One scenario is that the E.U. is so deeply split by these events that it will be unable to regroup as a political unit in the face of repeated U.S. divisive actions. Perhaps this is what Gowan foresees as the way for the U.S. to restore hegemony. But another scenario is that the E.U. will follow the majority of its population and become more united, more anti-American, and more of a competitor on the world stage. I think this is the more likely possibility. But in any case, there is no evidence that the U.S. is an empire over Europe now.

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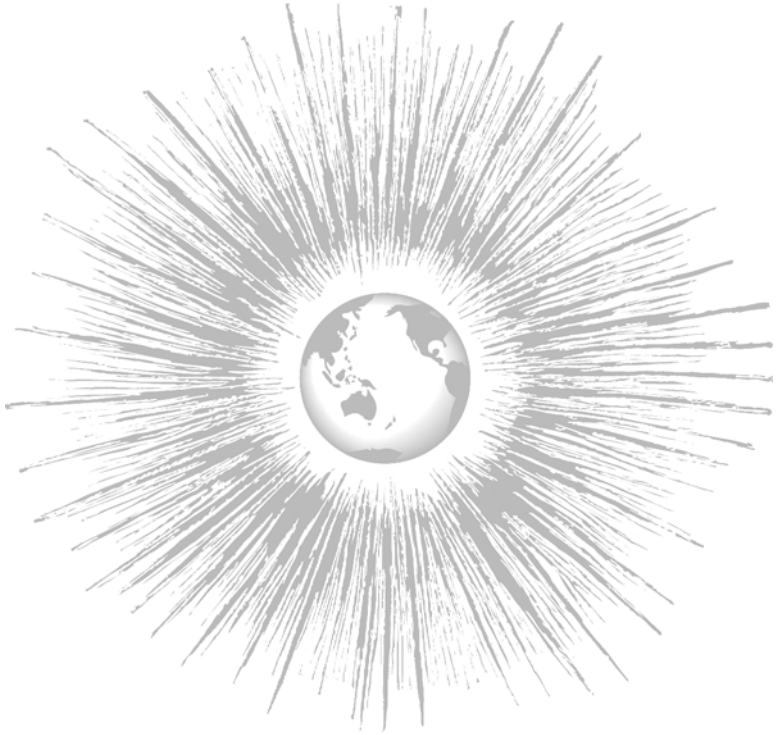

ABSTRACT:

Capitalism is the first and only historical social system that has become truly global in scale and scope. Mapping this transformation over time is a particularly challenging task. Without some theoretical guidance in the selection of the networks to be mapped, there is a real risk of producing maps that are so confusing as to be worthless. Drawing from David Harvey's concepts of "spatial-temporal fix," "switching crisis," and "accumulation by dispossession," this article proposes a conceptual map focused specifically on the processes associated with the globalization of historical capitalism. This is not an actual map of the spatial-temporal dynamic of historical capitalism but a first step in the identification of the kind of geographic and historical information that is needed in order to produce such a map.

Spatial and Other "Fixes" of Historical Capitalism*

Giovanni Arrighi

Capitalism is the first and only historical social system that has become truly global in scale and scope. Mapping this transformation over time is a particularly challenging task. I have no disagreement with Christopher Chase Dunn's and Thomas Hall's contention that the world capitalist system–like other world-systems–can be described by means of four kinds of social interaction networks, each operating at a different spatial scale: bulk goods networks at the smallest scale, prestige goods and information networks at the largest scale, and political-military networks at an intermediate scale (1997: 52–55). This is a useful and illuminating proposition, and there can be little doubt that a mapping of these networks over time for the world capitalist system would provide compelling evidence of its peculiar expansionary character in comparison with all other world systems.

Granted this, the resulting spatial-temporal map would provide little information concerning the inner dynamic of historical capitalism. It may even obscure the processes that have been associated with its globalization over the last half millennium. Worse still, this globalization has occurred through a tremendous increase in the number and variety of each kind of network, as well as an increase in the scale of bulk goods and military-political networks relative to prestige goods and information networks. Without some theoretical guidance in the selection of the networks to be mapped, there is a real risk of producing maps that are so confusing as to be worthless.

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The purpose of this paper is to propose a *conceptual* map focused specifically on the processes associated with the globalization of historical capitalism. This is not an actual map of the spatial-temporal dynamic of historical capitalism but a first step in the identification of the kind of geographic and historical information that is needed in order to produce such a map. I shall begin with a brief discussion of David Harvey's (2003) concepts of "spatial-temporal fix," "switching crisis," and "accumulation by dispossession." I will then show that these concepts find a close correspondence in the evolutionary pattern of world capitalism identified in *The Long Twentieth Century* (Arrighi 1994) and developed further in *Chaos and Governance in the Modern World System* (Arrighi and Silver 1999). I will conclude by pointing to the kind of geographic and historical information that would be most useful to represent graphically this evolutionary pattern and the resulting globalization of historical capitalism.

I. SPATIAL FIXES, SWITCHING CRISES, AND ACCUMULATION BY DISPOSSESSION

In seeking a connection between processes of capital accumulation and expansionist political-military projects—such as the *Project for the New American Century* that has inspired the US War on Terrorism and the invasion of Iraq—Harvey has deployed a complex conceptual apparatus, the center-piece of which is the notion of spatio-temporal fix. In his argument, the term "fix" has a double meaning.

> A certain portion of the total capital is literally fixed in and on the land in some physical form for a relatively long period of time (depending on its economic and physical lifetime). Some social expenditures (such as public education or a health-care system) also become territorialized and rendered geographically immobile through state commitments. The spatio-temporal 'fix', on the other hand, is a metaphor for a particular kind of solution to capitalist crises through temporal deferral and geographical expansion. (2003: 115)

Temporal deferral and geographical expansion "fix" the overaccumulation crises that arise from the chronic tendency of capital to accumulate over and above what can be reinvested profitably in the production and exchange of commodities. As a result of this tendency, surpluses of capital and labor are left unutilized or underutilized. The incorporation of new space into the system of accumulation absorbs these surpluses in two ways. At first, it promotes their utilization in the activities involved in opening up the new space and endowing it with the necessary infrastructure, both physical and social. And then, once the new space has been adequately "produced," the surpluses of labor and capital can be absorbed in the new productive combinations that have been made

profitable by the spatial enlargement of the system of accumulation (Harvey 2003: 109–112).

As Harvey notes, this metaphorical meaning of spatial-temporal fix as solution to capitalist crises can and recurrently does enter into contradiction with the material meaning of the expression. For the geographical expansion, reorganization, and reconstruction that absorb surplus capital and labor "threaten… the values already fixed in place (embedded in the land) but not yet realized." Hence,

> The vast quantities of capital fixed in place act as a drag upon the capacity to realize a spatial fix elsewhere.… If capital does move out, then it leaves behind a trail of devastation and devaluation; the deindustrializations experienced in the heartlands of capitalism…in the 1970s and 1980s are cases in point. If capital does not or cannot move…then overaccumulated capital stands to be devalued directly through the onset of a deflationary recession or depression. (Harvey 2003: 116)

Either way, spatial fixes can be expected to be associated with interregional volatility and the redirection of capital flows from one space to another. The redirection may occur smoothly, or it may involve what Harvey calls "switching crises" (2003: 121–23; 1982: 428–29). Harvey does not spell out the relationship between overaccumulation crises, spatial-temporal fixes, and switching crises. But the drift of his argument seems to be that, while overaccumulation crises are the cause, switching crises are a possible effect of the spatial-temporal fixes that recurrently revolutionize the historical geography of capitalism. They stem from resistance to the relocations involved in spatial fixes–a resistance that at least in part originates from the contradictory logic of capital accumulation itself. Indeed,"the more capitalism develops," argues Harvey, "the more it tends to succumb to the forces making for geographical inertia."

> The circulation of capital is increasingly imprisoned within immobile physical and social infrastructures which are crafted to support certain kinds of production…labor processes, distributional arrangements, consumption patterns, and so on. Increasing quantities of fixed capital…check uninhibited mobility.… Territorial alliances, which often become increasingly powerful and more deeply entrenched, arise.… to conserve privileges already won, to sustain investments already made, to keep a local compromise intact, and to protect itself from the chill winds of spatial competition.… New spatial configurations cannot be achieved because regional devaluations are not allowed to run their course. The uneven geographical development of capitalism then assumes a form that is totally inconsistent with sustained accumulation either within the region or on a global scale. (1982: 428–9)

In discussing the spatial fix that in his view is most prominent in the present

conjuncture (the emergence of China as the main absorber of surplus capital), Harvey adds a new element to the forces of geographical inertia that may prevent new spatial configurations from being achieved: resistance to hegemonic change. For this "remarkable version" of spatial-temporal fix "has global implications not only for absorbing overaccumulated capital, but also for shifting the balance of economic and political power to China as the regional hegemon and perhaps placing the Asian region, under Chinese leadership, in a much more competitive position vis-á-vis the United States." This possibility makes US resistance to a smooth spatial fix all the more likely, despite the fact that such a fix holds out the best prospect for a solution of the underlying overaccumulation crisis (Harvey 2003: 123–4).

The association between spatial fixes and hegemonic shifts thus strengthens the "catch-22" that always confronts previously leading centers of capitalist development. The unconstrained development of capitalism in new regions brings devaluation to these centers through intensified international competition. Constrained development abroad limits international competition but blocks off opportunities for the profitable investment of surplus capital and so sparks internally generated devaluations (Harvey 1982: 435). If the competitively challenged center is also a hegemonic center, either outcome threatens to deflate not just its assets but its power as well.

Harvey envisages two possible ways out of this catch-22. One is the use of financial means "to rid the system of overaccumulation by the visitation of crises of devaluation upon vulnerable territories" (2003: 134). And the other is the use of political and military means to turn international competition to the advantage of the more powerful states. The deployment of these means constitutes the "sinister and destructive side of spatial-temporal fixes to the overaccumulation problem."

> Like war in relation to diplomacy, finance capital intervention backed by state power frequently amounts to accumulation by other means. An unholy alliance between state powers and the predatory aspects of finance capital forms the cutting edge of a "vulture capitalism" that is as much about cannibalistic practices and forced devaluations as it is about achieving harmonious global development. (2003: 135–6)

Harvey goes on to note that these "other means" are what Karl Marx, following Adam Smith, referred to as the means of "primitive" or "original" accumulation. He quotes approvingly Hannah Arendt's observation that "the emergence of 'superfluous' money…which could no longer find productive investment within the national borders," created a situation in the late 19th and early 20th centuries whereby Marx's "original sin of simple robbery…had

eventually to be repeated lest the motor of accumulation suddenly die down" (Harvey 2003: 142). Since a similar situation appears to have emerged again in the late 20th and early 21st centuries, Harvey advocates a "general reevaluation of the continuous role and persistence of the predatory practices of 'primitive' or 'original' accumulation within the long historical geography of capital accumulation." And since he finds it peculiar to call an ongoing process "primitive" or "original," he proposes to replace these terms with the concept of "accumulation by dispossession."

Historically, accumulation by dispossession has taken many different forms, including the conversion of various forms of property rights (common, collective, state, etc.) into exclusive property rights; colonial, semi-colonial, neo-colonial, and imperial appropriations of assets and natural resources; and the suppression of alternatives to the capitalistic use of human and natural resources. Although much has been contingent and haphazard in the *modus operandi* of these processes, finance capital and the credit system have been major levers of dispossession, while the states, with their monopolies of violence and definitions of legality have been crucial protagonists (Harvey 2003: 145–9). But whatever its manifestations, agencies, and instruments,

> What accumulation by dispossession does is to release a set of assets (including labor power) at very low (and in some instances zero) cost. Overaccumulated capital can seize hold of such assets and immediately turn them to profitable use. (Harvey 2003: 149)

Accumulation by dispossession can take place both at home and abroad. The more developed capitalistically a state is, however, the greater the difficulties involved in practicing it at home, and the greater the incentives and the capabilities to practice it abroad. It follows that accumulation by dispossession is only in part a substitute for spatial fixes to overaccumulation crises. To an extent that increases with the development of capitalism in the states or regions facing overaccumulation problems, it involves a spatial fix of its own—a spatial fix, that is, that expands the geographical scope of the system of accumulation through the forcible or fraudulent appropriation of something for nothing, rather than through the exchange of nominally equivalent values.

II. A CONCEPTUAL MAP OF HISTORICAL CAPITALISM

The concepts reviewed in the preceding section can be used, as Harvey does, to interpret current US dispositions to remake the map of the world to suit US interests and values, in comparison with the dispositions that drove the territorial expansion of capitalist states in the late 19th and early 20th century.

But they can also be used to interpret the peculiar expansionary tendencies of historical capitalism over a much longer time horizon than that encompassed by Harvey's observations. This much longer horizon stretches as far back in time as we can detect overaccumulation crises that are in key respects comparable to the present one.

As I have argued in *The Long Twentieth Century*, persistent systemwide overaccumulation crises have characterized historical capitalism long before it became a mode of production in the late 18th and early 19th centuries. Taking long periods of "financialization" across political jurisdictions as the most valid and reliable indicator of an underlying overaccumulation crisis, I identified four partly overlapping "systemic cycles of accumulation" of increasing scale and decreasing duration, each consisting of a phase of material expansion—in the course of which capital accumulates primarily through investment in trade and production—and a phase of financial expansion, in the course of which capital accumulates primarily through investment in property titles and other claims on future incomes. Contrary to the reading of some critics, the identification of these cycles does not portray the history of capitalism as "the eternal return of the same," as Michael Hardt and Antonio Negri put it (2000: 239). Rather, they show that, precisely when the "same" (in the form of recurrent systemwide financial expansions) appears to return, new spatial-temporal fixes, major switching crises, and long periods of accumulation by dispossession have revolutionized the historical geography of capitalism. Integral to these "revolutions" was the emergence of a new leading agency and a new organization of the system of accumulation.

A comparison of these distinct agencies and organizations reveals, not only that they are different, but also that the sequence of these differences describes an evolutionary pattern towards regimes of increasing size, scope and complexity. This evolutionary pattern is summed up in figure 1 (the figure and much of what follows in this section are taken from Arrighi and Silver 2001: 264–68). The first column of the figure focuses on the "containers of power"—as Anthony Giddens (1987) has aptly characterized states—that have housed the "headquarters" of the leading capitalist agencies of the successive regimes: the Republic of Genoa, the United Provinces, the United Kingdom, and the United States.

At the time of the rise and full expansion of the Genoese regime, the Republic of Genoa was a city-state small in size and simple in organization, which contained very little power indeed. Yet, thanks to its far-flung commercial and financial networks the Genoese capitalist class, organized in a cosmopolitan diaspora, could deal on a par with the most powerful territorialist rulers of Europe, and turn the relentless competition for mobile capital among these

Figure 1 – Evolutionary Patterns of World Capitalism

Leading Governmental Organization	Regime Type / Cycle		Costs Intenalized			
	Extensive	Intensive	Protection	Production	Transaction	Reproduction
World-State						
		US	Yes	Yes	Yes	No
	British		Yes	Yes	No	No
Nation-State						
		Dutch	Yes	No	No	No
	Genoese		No	No	No	No
City-State						

Source: Arrighi and Silver (2001: 265)

rulers into a powerful engine for the self-expansion of its own capital. At the time of the rise and full expansion of the Dutch regime of accumulation, the United Provinces was a hybrid kind of organization that combined some of the features of the disappearing city-states with some of the features of the rising nation-states. The greater power of the Dutch state relative to the Genoese enabled the Dutch capitalist class to do what the Genoese had already been doing—turn interstate competition for mobile capital into an engine for the self-expansion of its own capital—but without having to "buy" protection from territorialist states, as the Genoese had done through a relationship of political exchange with Iberian rulers. The Dutch regime, in other words, "internalized" the protection costs that the Genoese had "externalized" (see Figure 1, column 4).

At the time of the rise and full expansion of the British regime of accumulation, the United Kingdom was not only a fully developed nation-state.It was also in the process of conquering a world-encompassing commercial and territorial empire that gave its ruling groups and its capitalist class a command over the world's human and natural resources without parallel or precedent. This command enabled the British capitalist class to do what the Dutch had already been able to do—turn to its own advantage interstate competition for mobile capital and "produce" all the protection required by the self-expansion

of its capital—but without having to rely on foreign and often hostile territorialist organizations for most of the agro-industrial production on which the profitability of its commercial activities rested. If the Dutch regime relative to the Genoese had internalized protection costs, the British regime relative to the Dutch internalized production costs as well (see Figure 1, column 5). As a consequence of this internalization, world capitalism continued to be a mode of accumulation and rule but became also a mode of production.

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

This steady increase in the geographical size and functional scope of successive regimes of capital accumulation on a world scale is somewhat obscured by another feature of the temporal sequence of such regimes. This feature is a double movement, forward and backward at the same time. For each step forward in the process of internalization of costs by a new regime of accumulation has involved a revival of governmental and business strategies and structures that had been superseded by the preceding regime. Thus, the internalization of protection costs by the Dutch regime in comparison with the Genoese regime occurred through a revival of the strategies and structures of Venetian state monopoly capitalism that the Genoese regime had superseded. Similarly, the internalization of production costs by the British regime in comparison with the Dutch regime occurred through a revival in new and more complex forms of the strategies and structures of Genoese cosmopolitan capitalism and Iberian global territorialism. And the same pattern recurred once again with the rise and full expansion of the US regime, which internalized transaction costs by reviving in new and more complex forms the strategies and structures of Dutch corporate capitalism (see Figure 1, columns 1 & 2).

This recurrent revival of previously superseded strategies and structures of accumulation generates a pendulum-like movement back and forth between "cosmopolitan-imperial" and "corporate-national" organizational structures, the first being typical of "extensive" regimes—as the Genoese-Iberian and the British were—and the second of "intensive" regimes—as the Dutch and the US

were. The Genoese-Iberian and British "cosmopolitan-imperial" regimes were extensive in the sense that they have been responsible for most of the geographical expansion of world capitalism. Under the Genoese regime, the world was "discovered," and under the British it was "conquered." The Dutch and the US "corporate-national" regimes, in contrast, were intensive in the sense that they have been responsible for the geographical consolidation rather than expansion of the historical capitalism. Under the Dutch regime, the "discovery" of the world realized primarily by the Iberian partners of the Genoese was consolidated into an Amsterdam-centered system of commercial entrepots and joint-stock chartered companies. And under the US regime, the "conquest" of the world realized primarily by the British themselves was consolidated into a US-centered system of national states and transnational corporations.

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

The globalization of historical capitalism has thus been based on the formation of ever more powerful cosmopolitan-imperial (or corporate-national) blocs of governmental and business organizations endowed with the capacity to widen (or deepen) the functional and spatial scope of the system of accumulation. And yet, the more powerful these blocs have become, the shorter the life-cycle of the regimes of accumulation that they have brought into being—the shorter, that is, the time that it has taken for these regimes to emerge out of the overaccumulation crisis of the preceding dominant regime, to become themselves dominant, and to attain their limits as signaled by the beginning of a new overaccumulation crisis. Relying on Braudel's dating of the beginning of financial expansions, I have calculated that this time was less than half both in the case of the British regime relative to the Genoese and in the case of the US regime relative to the Dutch (Arrighi 1994: 216–17).

This pattern of capitalist development whereby an increase in the power of regimes of accumulation is associated with a decrease in their duration, calls to mind Marx's contention that "*the real barrier* of capitalist production is *capital itself*" and that capitalist production continually overcomes its immanent barriers "only by means which again place these barriers in its way on a more formidable scale" (1962: 244–5). But the contradiction between the self-expan-

sion of capital on the one side, and the development of the material forces of production and of an appropriate world market on the other, can in fact be reformulated in even more general terms than Marx did. For capitalism as historical social system became a "mode of production"—that is, it internalized production costs—only in its third (British) stage of development. And yet, the principle that the real barrier of capitalist development is capital itself, that the self-expansion of existing capital is in constant tension, and recurrently enters in open contradiction, with the expansion of world trade and production and the creation of an appropriate world market—all this was clearly at work already in the Genoese and Dutch stages of development, notwithstanding the continuing externalization of agro-industrial production by their leading agencies. In all instances the contradiction is that the expansion of trade and production was mere means in endeavors aimed primarily at increasing the value of capital. And yet, over time it tended to generate more capital than could be absorbed profitably within the confines of the extant spatial-temporal fix (in the material meaning of the expression), thereby threatening to drive down overall returns to capital and thus deflate its value.

The resolution of the ensuing overaccumulation crises through a new spatial-temporal fix (in both meanings of the expression) has taken relatively long periods of time—as a rule more than half a century. In all instances, the resolutions have been punctuated by major switching crises and have involved processes typical of accumulation by dispossession. Although much in the *modus operandi* of these processes has indeed been contingent and haphazard as Harvey suggests, in *Chaos and Governance* my co-authors and I have nonetheless detected some regularities, three of which are especially germane to our present concerns.

First, one kind or another of financialization has always been the predominant response to the overaccumulation problem of the established organizing centers of the system of accumulation. Thanks to their continuing centrality in networks of high finance, these centers have been best positioned to turn the intensifying competition for mobile capital to their advantage, and thereby reflate their profits and power at the expense of the rest of the system. Over time, however, financial expansions have promoted the geographical relocation of the centers of capital accumulation by rerouting surplus capital to states and regions capable of ensuring a more secure and profitable spatial-temporal fix to the overaccumulation crisis. Previously dominant centers have thus been faced with the Sisyphean task of containing forces that keep rolling forth with ever renewed strength. Sooner or later, even a small disturbance can tilt (and historically has invariably tilted) the balance in favor of the forces that wittingly or unwittingly are undermining the already precarious stability of existing structures, thereby provoking a breakdown of the system of accumulation (Arrighi and Silver 1999: 258–264).

Second, the states have been key protagonists of the struggles through which old spatial-temporal fixes are destroyed and fixes of greater geographical scope are attained. In the past, switches to fixes of greater geographical scope were premised on the interstitial emergence of governmental-business complexes that were (or could plausibly become) more powerful both militarily and financially than the still dominant governmental-business complex—as the US complex was relative to the British in the early twentieth century, the British complex relative to the Dutch in the early eighteenth century, and the Dutch relative to the Genoese in the late sixteenth century. In the present transition, it is not yet clear whether and how a governmental-business complex more powerful than the US complex can emerge and eventually provide a solution to the ongoing overaccumulation crisis. But in so far as the past dynamic of historical capitalism is concerned, this tendency towards the formation of ever more powerful governmental-business complexes is one of its most important features (Arrighi and Silver 1999: 88–96, 263–70, 275–8, 286–89).

Finally, in each transition accumulation by dispossession has provoked movements of resistance and rebellion by subordinate groups and strata whose established ways of life were coming under attack. Interacting with the interstate power struggle, these movements eventually forced the dominant groups to form new hegemonic social blocs that selectively included previously excluded groups and strata. This increasing "democratization" of historical capitalism has been accompanied by a speedup in the impact of social conflict on overaccumulation crises. Thus, while the overaccumulation crisis of the Dutch regime of accumulation was a long drawn out process in which systemwide social conflict came much later than the systemwide financial expansion, in the overaccumulation crisis of the British regime the systemwide financial expansion gave rise almost immediately to systemwide social conflict. This speedup in the social history of capitalism has culminated in the explosion of social conflict of the late 1960s and early 1970s, which preceded and thoroughly shaped the crisis of the US regime of accumulation (Arrighi and Silver 1999: 153–216; 282–6; Silver 2003).

III. Toward a Geographical Representation of Historical Capitalism

The foregoing analysis suggests five basic rules that in my view are essential to a minimally accurate geographical representation of the processes that underlie the globalization of historical capitalism over the past half millennium.

I list them here in the hope that they will be of some use to whomever might be interested in undertaking such a representation.

Rule # 1. The idea still dominant in world-system analysis of a quantitatively expanding but structurally invariant world capitalist systems must be abandoned, including and especially the notion of Kondratieff cycles, hegemonic cycles, and logistics as empirical manifestations of such a structural invariance. The globalization of historical capitalism must instead be represented as involving fundamental structural transformations of the spatial networks in which the system of accumulation has been embedded.

Rule # 2. In this kind of representation, priority should be given to the networks of each regime's leading business and governmental organizations. Due attention should be paid to the fact that the spatial organization of "cosmopolitan-imperial" (extensive) regimes is quite different from that of "corporate-national" (intensive) regimes. Comparisons across time of the degree of globalization attained by historical capitalism must take into account and highlight the most important differences between these two kinds of regime.

Rule # 3. Representations should focus on those points in time that enable us to highlight not just cyclical but structural transformations as well. Points in time close to the change of phase from material to financial expansion are the most important from both points of view. By comparing a succession of representations at such times, we would highlight structural transformations. And by comparing each of these representations with analogous representations at later points within the life-time of the same regime, we would highlight the cyclical transformations involved in the recurrence of overaccumulation crises.

Rule # 4. Representations of any particular regime of accumulation at a late stage of its development, should depict not just the dominant spatial fix but also the interstitial emergence of agencies and networks that subsequently provided a solution to the underlying overaccumulation crisis. If feasible, we should try to represent also the interstitial emergence of other agencies and networks that never became dominant but constituted plausible historical alternatives to those that did.

Rule # 5. To the extent that social conflicts are included in the representations, account should be taken both of their concentration in periods of accumulation by dispossession, and of their transformation from being a "dependent variable" to being an "independent variable" in relation to overaccumulation crises. In any event, the geographical mapping of social conflict requires concepts and techniques that fall beyond the scope of this paper.

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Book Reviews

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King, C. Richard, ed. 2000. ***Postcolonial America.*** Urbana and Chicago: University of Illinois Press. 361 Pages, ISBN 0-252-02531-8 (cloth), ISBN 0-252-06852-1 (paper). http://www.press.uillinois.edu/s00/king.html

Much of the writing that is labeled "postcolonial" is about the persisting effects of European colonialism on the contemporary historical and literary renderings of the relationship between Europe and its former colonies, particularly India. The primary goal of this book is to extend postcolonial arguments to the case of the United States as it relates to the rest of the world and to offer critiques of some of the established nostrums of postcolonial studies from a less-Eurocentric standpoint. The irony in the American case is not lost on the editor when he notes that the United States itself began as a post-colony to Europe even as it has generated its very own variety of imperialism, initially in North America but later at continental and worldwide scales.

Unfortunately for a book in which words seem to matter more than anything else, whether or not this usage stretches the term "postcolonial" to the point of meaninglessness, when words like imperial or hegemonic might do better, is not adequately examined. Indeed, many of the chapters favor such words in preference to the perhaps too ambiguous semiotic freight carried by the "postcolonial." Yet, two of the most stimulating chapters in the book, those by Jon Stratton and Jenny Sharpe, also show that American postcoloniality is qualitatively different in important ways from what the Europeans brought to their relations with subjugated others, suggesting that ritual invocation of terms such as postcolonialism, imperialism, empire, and hegemony without making them more historically and geographically specific is perhaps an even larger intellectual and political problem. What we call the relations these words try to capture does matter, if only because what they entail and therefore what can or cannot be done about them also varies. In the absence of explicit attention to these definitional issues, the book misses an opportunity to help clarify what are becoming increasingly murky and, by extension, increasingly scholastic debates among scholars with little or no public audience. If postcoloniality is only "some sort of global condition" (p. 10), then its analytic capacity leaves much to be desired.

At first sight, the United States does seem ripe for postcolonial analysis. Implicit in dominant representations of US history are national narratives and political practices that alternate between celebrating the triumphs of its Euro-American pioneers in settling and stabilizing an American homeland and lauding the possibility of including subordinated groups at home and abroad within

the cultural and economic framework established by the pioneers. Not only is the American experience thereby racialized but it is also profoundly deterritorialized or made available for consumption (in commodity form) around the world. This is a much more geographically expansive postcoloniality than that produced by the Europeans. The chapters range far and wide in pursuit of these themes.

In the first section of three chapters, the authors engage with the stories and narratives that have shaped the United States as an "imperial nation." Stratton's chapter is particularly coherent and strong in tracing the promised land and apocalyptic elements in American myths about the uniqueness and exceptional character of the United States. Whether this can be laid entirely at the door of the "insecurity" of the US as a settler state (p. 26), however, is open to question. The four essays in the second section address the ways in which US transnational connections (immigration, trade, investment, etc.) shape American self-images and external relations. Jenny Sharpe makes a good case for a postcolonial analysis of literature penned in the United States by ethnic and diasporic writers by showing how it differs in detail from that of Europe, yet how the US shares the same sorts of power differentials with subordinate groups and world regions manifested in European-colonial core-periphery and migrant experiences. But, in showing how postcolonial analysis emanates from the mutual influence of Edward Said and Michel Foucault on literary studies beginning in the late 1970s, she also demonstrates that analysis of the American case must emphasize transnationalism and power differentials rather than marginality and oppression. E. San Juan Jr., however, will have none of this. He sees postcolonial analysis as merely "demobilizing Fanon" or the literary equivalent of a maligned "world-systems theory." Without addressing in any way the main theme of the book, he embarks on a defense of the nation-state and national liberation as the antidote to a universal imperialism, whose most recent prime agent is the United States. In claiming that postcolonial analysis in its emphasis on the centrality of imperial culture must necessarily thereby celebrate it, San Juan turns to a national populism that for him, as for previous generations of revolutionary communists, miraculously prefigures a global public space. This truly is writing against the grain.

The final section of six chapters focuses on the forms that postcolonialism takes within American culture. The emphasis is on how different places and people invent, interpret, and resist literary, musical, and political messages with an eye to their relationship with the "postcolonial." Thus, if one chapter emphasizes the "will to difference" with the mundane of the everyday in one place (Taos, New Mexico), another discusses the particular settings in which hip-hop music has been invented. The strength of these chapters lies in showing

how the postcolonial "comes home" within the territorial confines of the United States itself.

Though individual chapters in this collection offer interesting perspectives on the "postcolonial condition" of the United States, I find that the book as a whole counts as something of a disappointment. Apart from San Juan's intervention, which fails to address the main theme of the book: the appropriateness of looking at the United States from a postcolonial perspective, there is little or no discussion of the term "postcolonial" and its various alternatives and what relative analytic punch they might pack. Of course, the language issue is part of a larger theoretical problem: the failure of contemporary literary studies to invest much in examining work in the social sciences, such as world-systems analysis, that might help them escape from the linguistic traps into which so much of the work in postcolonial studies seems to fall. In opening up to a new more analytic vocabulary this might have the incidental benefit of helping relieve readers from the tortuous circumlocutions and prolix prose that afflicts so much of the writing under the label "postcolonial studies."

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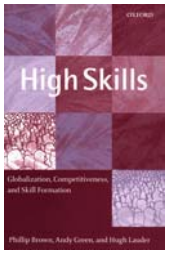
Brown, Phillip, Andy Green, and Hugh Lander. 2001. ***High Skills: Globalization, Competitiveness, and Skill Formation***. New York: Oxford University Press. 306 Pages. ISBN 0-19-924418-9 (cloth), ISBN 0-19-924420-0 (paper).
http://www.oup.com/academic/

High Skills: Globalization, Competitiveness, and Skill Formation is a comparative study of high skill formation in six countries: Britain, Germany, Japan, Korea, Singapore, and the United States. Policy makers and neo-liberals assume that a convergence of economic practices will diffuse across all free market economies across the globe, leading to a single model of skills formation and economic development. This emphasis on the crucial role of a highly skilled workforce in fostering not only economic and social welfare, but also international competitiveness in skill formation has stimulated the creation of a highly skilled work force, often with the encouragement of the United States and Britain. Phillip



Brown, Andy Green, and Hugh Lauder question this underlying assumption. In addressing what is the central question of their study: *What are the conditions under which different nation states attain a high skill economy?*

To answer this question, the authors develop an analytical framework of high skills derived from economic sociology that argues that skill formation and economic performance are socially constructed and experienced within social institutions such as schools, offices, and factories. The relationship between skill formation and economic performance can be organized in different ways, shaped largely by differences in historical and economic conditions, cultural, political, and social mores (p.30).

Phillip Brown develops seven key societal conditions that are necessary to attain an ideal-type high skilled society. According to the authors, in order for an ideal-type high skills society to develop, there must be links between the following conditions through state action across diverse domains such as education and training, labor market, social welfare, and economic strategies. These conditions are important precisely because they shape and become embedded in the key social institutions of a high skills society such as schools, offices, and factories. The seven C's of high skills are: (1) consensus, the degree of commitment of major stakeholders to upgrade skills; (2) entrepreneurial innovation rather than merely cost-cutting approaches to productivity and competitiveness; (3) capability, the continuous development in human capability, particularly in the use of new skill of "emotional intelligence" based on the assertion that all have the potential to benefit from skills upgrading and lifelong learning; (4) coordination, a recognition of the need to concentrate not only on the supply side issues of education but also a fostering of demand for labor; (5) circulation, a diffusion of high skills across society; (6) cooperation, the general development of high trust relations including individual empowerment as well as collective commitment to skills upgrading; and (7) closure, policies that promote social inclusion as opposed to social exclusion from benefits accruing in a high skill society. According to the authors, Germany is the only country that comes closest to the model of a "high skill society."

Hugh Lauder argues that the process by which these conditions occur is through skill diffusion systems where there is a strong link among a nation's: (a) labor market structure; (b) education and training systems; (c) key social and cultural characteristics; and (d) a strong interaction between the state and market. Germany has the high skills society model characterized by a strong occupational labor market and a close fit between education and training and the labor market, ensuring a high degree of social inclusion, income equality, and trust. Japan has high skills manufacturing characterized by a strong internal labor market regulated by the state and commitment to lifelong employ-

ment. There is a high degree of social inclusion and social conformism among men and significant inequities regarding women workers, and the SME sector. Singapore has the developmental high skills model characterized by state intervention in market relations, a complaint workforce, and significant inequities regarding Malay underclass, women, and SME sector. Britain has the low skills/high skills model characterized by a flexible labor market, employment insecurity, and minimum state intervention.

Hugh Lauder with Yadollah Mehralizadeh challenges the neo-liberal premise that market capitalism will lead to a high skill economy that will deliver prosperity, opportunity, and social cohesion, particularly promoted by recent United States presidents and Britain's Tony Blair. Rather, the relationship between skill formation and economic performance may differ greatly between nations, by historical and cultural experiences, as well as political and social factors. Even nations that come closest to meeting all ideal-type conditions for high skills society, such as Germany and Japan, are divided by their histories, cultural, social, and political construction of these practices, and thus, are divided by paths of progression. Britain and United States' flexible labor market strategy limits skill formation because it increases unemployment, discourages training, and results in a strong polarization of skill and income, and social exclusion. Findings from this study suggest that the national economies are not as permeable as neoclassical economists and politicians would like us to believe.

High Skill: Globalization, Competitiveness, and Skill Formation is a bold approach to developing an analytical framework of skill formation and economic performance and applying this framework to comparing economies from highly industrialized western countries and rapidly developing East-Asian countries. This book is not only empirically grounded but also theory-driven. Although the study focused on economies from developed and rapidly developing East-Asian economies, it has theoretical relevance that extends beyond the cases studied, and as such, provides fertile ground for subsequent theoretical and empirical inquiry.

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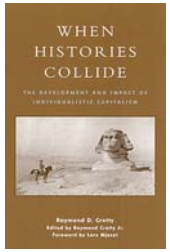
Crotty, Raymond D. 2001. ***When Histories Collide: The Development and Impact of Individualistic Capitalism.*** Walnut Creek CA: AltaMira Press. 311 pages, ISBN 0-7591-0157-4 (cloth), ISBN 0-7591-0158-2 (paper).
http://www.altamirapress.com/

Ray Crotty was an interesting guy. He was an Irish farmer who observed his own failures and the general problems of farmers around him and then got a formal economics training which he used to explain the things he had observed. He made further observations of practical farming while working in Asia, Latin America and Africa with the World Bank and the UN, where he found similarities between Ireland and other former colonies. He then taught development economics in (of all places) the Statistics Department of Trinity College Dublin. Despite being marginalized by much of the Irish academic community, he had a major impact on critical Irish thought and practice since the 1970s, through his published work and his tireless campaigning against what he viewed to be the negative consequences on Ireland of EU integration. *When Histories Collide* is published posthumously due to the efforts of Lars Mjoset of the University of Oslo, who worked with and admired Crotty.



This is a two-part book in which Crotty lays out his interpretation of long-term world historical development and then applies his model with respect to Ireland (he also says some comparative things about North and South America and other colonised regions). He has a novel ecological theory of the origins of Western 'individualist capitalism', based on the ways in which pastoral migrants interacted with different factor endowments to develop specific systems of property relations and production/reproduction.

In the first half of the book, Crotty unfolds his basic historical analysis of the twin processes of 'individualist capitalist development' and 'capitalist *colonial* undevelopment'. Both processes are centred on the introduction of property. But private property (the identifying institution of individualistic capitalism) emerged autochthonously in Europe, and was thus a developing factor by inducing productivity in the limiting factor of production, but was 'undeveloping' when it was imposed onto collectivist societies. There, it worked only to the advantage of a privileged class that was identified with the metropolis and the masses of people sank into deep poverty.

Crotty's historical model unfolds something like clockwork, although it is a very long clock. Nomadic Indo-European pastoralists who were lactose tolerant attained an advantage over farmers because they could drink milk and eat

milk products when other sources of food failed. This enabled them to produce a surplus population, leading to invasions of different regions of Asia and Europe around 2000 BC. The invasions produced different outcomes according to the ecology of each region/society (note that Crotty's 'world-system' begins at about the same time as that of Frank, but it proceeds very differently according to Crotty's definition of individualist capitalism). In China, India and the Near East they did not produce capitalism. But invasions into Europe created *individualistic* constellations, in which the institutions of individual property emerged.

These European constellations took two forms. In southern Europe, conditions were such that the individual reproduction was possible only by extracting a surplus from slaves, so 'individualist slavery' emerged. The individualist slaveholder expanded extensively, by capturing more slaves, and the system expanded aggressively until it had to move northward. There, in central-western Europe, it was undermined by a more productive economy where individualism took a different and capitalist form because neither land nor labor was the limiting factor. The individualist farmer was able to adapt in a productive way to the environment by developing private property rights in capital (cattle, shelter, crops, food).

After these populations competed with each other for three millennia, the system exploded. Capitalist colonialism emerged as Spain and Portugal extended slave-based agriculture outward into the world-system. And the Tudors in England introduced property rights in land, which, together with the stimulus from the first outward movement of colonialism, provided the conditions for the rise of factory capitalism. England, however, was purely exceptional because it is the only place where property that was primarily in land developed autochthonously. The result was singularly 'developing' for England in an industrial sense, but because of the landed form of private property the English masses paid for its development and world leadership by enduring impoverishment for four centuries before they shared in the prosperity.

From this point, the rapid surge of individualist capitalist colonialism created two outcomes. In settler colonies like North America, where the indigenous populations could be largely swept away and land was virtually limitless, property was imposed and maintained by the settlers themselves. As in central Western Europe (but not England), they achieved development primarily on the basis of property in capital. The non-settler colonies, Crotty argues, were the only areas apart from England where property was based primarily in land. Since this was *not* an autochthonous development, property relations were forcibly maintained by the metropoles 'for squeezing the colonized nations' (P.121). Land that was previously used for popular sustenance now became a source of

profit for agents and collaborators of the metropoles and the local people were squeezed and had no way to avoid sinking into poverty. This is the essence of Crotty's 'capitalist colonialist undevelopment.'

The second half of the book concentrates on how this model of historical development applies to the Irish case. The 'capitalist colonization' of Ireland began with the imposition of private property in land after the Tudor conquest. Eventually, the combination of cheap land, ecological conditions and changing demands in the metropolis led in 1820–1921 to the collapse of the Irish economy after a collapse in grain prices throughout Europe and, then, the potato blight of the 1840s, causing widespread famine (over a million died), depopulation and poverty.

Crotty discusses the 'aftermath of capitalist colonialism' to make his analysis speak to the current needs for change in colonized regions like Ireland. His central theme is that independence is obtained in capitalist colonies only when the metropolitan-oriented elite is sufficiently strong and the colonized mass sufficiently debilitated to ensure the perpetuation of 'undevelopment' in the post-colonial period. Crotty calls this the 'essential continuity' of capitalist colonialism. When he wrote *When Histories Collide*, the Irish Celtic Tiger economy of the 1990s had not yet emerged. Ireland was mired in poverty, one in five was unemployed, the state was one of the most indebted in the world and it appeared as though dependence on foreign investments would be insufficient to change any of this.

Despite his pessimistic analysis, Crotty has a pretty simple way out of undevelopment that only requires substantial national mobilization. To reverse undevelopment, he argues, one must deprive the state, 'the enemy of the nation', of its control of the nation's resources; then one must recognize and implement the nation's title to these resources. His argument for doing this is a strange mix of populism and neoclassical economics. Since he argues that the central problem of undevelopment is the legacy of free land (for those who have it), cheap capital and expensive (although low-paid) labour, his solution is market-led. He proposes that a 'national dividend', a large guaranteed income transfer to all residents of the state, would increase the supply of labour and cheapen it by eliminating the 'poverty trap' where wages are too low to induce anyone to forego their state welfare benefits. A land tax would force holders of the land to use it more productively or dispose of it to someone who will. And restoration of sufficiently high profit and capital taxes would increase the cost of capital, forcing its productive use in some cases and its substitution by labour in others. The thrust of each of these proposals is to develop institutions that will realign factor prices in a way that will ensure their efficient use to the benefit of the mass of people. In other words, Crotty suggests that 'market-led individualistic capi-

talism' can be introduced successfully in post-colonies with the right policies.

This is a startling conclusion in two respects (apart from his eliding of the problems of Western poverty and inequality). First, such a simple market-based solution seems to be out of sync with a long historical analysis that centers on the embedding of institutions over the millennia, in a way that appears to be pretty unshakeable due to the powerful class alliances that underpin and benefit from those institutions. Second, it all seems dated, anyway, after a decade of rapid economic growth in Ireland that seems to defy *any* long history.

One wonders what Crotty would have made of the Celtic tiger. I think he would have been hampered by the fact that his historical model, interesting as it is, lacks sufficient interior analysis of different phases or cycles of undevelopment, as we find, for instance, in the work of Arrighi. He thus has difficulty recognising the changes that have taken place in post-colonial Ireland (and in some other regions) to move it away from its agrarian past. Nonetheless, Crotty's is a rewarding long historical analysis and a serious alternative (or addition) to others. And I suspect, if he were with us today, he would insist that the 'essential continuity' of capitalist colonialism is proven by the fact that, in spite of Ireland's recent economic growth, many of its basic inequalities have remained.

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Crespo, Al, ed. (2002) ***Protest in the Land of Plenty: A View of Democracy from the Streets of America as We Enter the 21st Century***. Center Lane Press: Miami, FL, 186 pages (ill.), ISBN: 0-9722-1340-6. http://www.centerlanepress.com/

Whether one dismisses protesters and their actions or actively seeks to join their ranks, it seems impossible to simply ignore their presence these days. Though a steady undercurrent of social movement and protest politics has run throughout US history, sustained and mass mobilizations seem to follow a cyclical pattern. Since the November 1999 World Trade Organization meetings, when news media honed in on black-clad and often dreadlocked youths in contention with Seattle city police, and now the twelve-plus millions worldwide who

recently marched to protest against a US invasion of Iraq, it would seem that the protest cycle is nearing another apex. But who are these people? Why do they dress the way they do and engage in the sometimes symbolic, sometimes violent, acts that they do? Mainstream media barrages the public with pundits' opinions and selective film footage of today's radicals (but rarely the reactionaries), and seldom do we hear or see protests from the vantage of its participants. Al Crespo presents a rare and vivid photo project with the hopes of bringing the protests and protesters a little closer to the public.

During a visit to Buenos Aires in 1997, Crespo serendipitously found himself caught up in a student street protest. Subsequent interviews with the students caused him to question the contemporary climate of protest in the United States. Those questions led to his project of traveling the US and capturing the protests on film over several years. His journey covers the period from November 1999 to late September 2001 and takes us to sixteen different protest actions including the Republican and Democratic National Conventions, various Florida protests concerning the election, Elian Gonzalez, and the return of Haitian refugees, and even to KKK marches, death penalty protests, and the first peace demonstrations following the September 11th attacks. Amongst the hundreds of photos are also essays either introducing and contextualizing an event or are contributions from movement leaders who explain their groups and politics in their own words.

The book is primarily about the photos and it must be said that they are stunning. The first few black and whites capture the drama of recent protests, one depicting students drawing signs in the street while another stares down the barrel of a Los Angeles cop's shotgun during the tumultuous first night of the Democratic National Convention. Crespo evidently had no reservations of either crossing sides at rallies or getting close to the action as many photos even capture pro and con forces exchanging words, angry looks, and the ubiquitous middle-fingered salute. What comes across most vividly, and most importantly, is the great range of people and strategies that emerge in protest activities. Not all activists are young, or radical, and not all are chanting and waving signs. Rather, and in addition to the above, there are puppets, street theatre, occasional nudity, breathtaking colors and art, sit-downs, creative slogans, and a conscious type of drama that is difficult to convey. Crespo's photos capture much of this and do so in a compelling and accessible manner.

The essays deepen the overall picture presented by letting protest organizers explain their tactics and reasoning. Their perspectives are refreshing and go far in explaining the motivations people have in joining protests and the emotions that animate events. Some essays help elucidate the aims and histories of controversial organizations, while others present a view that was overlooked

by media and protesters alike at the time. Examples of the latter include a history of the School of the Americas Watch by its founder Fr. Rou Bourgeois and a compelling story of discrimination against Haitian refugees to the US by Marleine Bastien. Of particular note are the essays by Nicholas Barricada and John Sellers on the infamous organizations of the Black Bloc and the Ruckus Society, respectively. These organizations are often stereotyped by news media and have become sort of symbols of mainstream institutions protesting against protest itself. Having prominent activists of those societies explain what they do and why they do it helps cut through some of the disinformation and gives greater meaning to the photos of street action.

However, as interesting and useful as the photos and essays are, a little more verbiage would have done the book well. Though separate introductions to sections explain the basic scenarios of each protest covered, a more thorough introduction and conclusion to the book would have helped set the overall context of contemporary US activism. For instance, is now actually a more turbulent time with more and varied protests in the US than during the 80's or the 60's, or does it just seem that way because of the way protests are presented to us? Extra history on organizations, events, and protesting in general would have rounded out the book. Most glaring, though, is the lack of grassroots voices in the book and the lack of conservative protest movement leaders' essay contributions. As deplorable as the KKK may be, it would have helped balance the book some to have an essay by one of its leaders, or by another movement, that would give their perspective on organizing and animating protests. Omitting grassroots voices, however, is hard to forgive since the book is essentially about their experiences. Photos depict people from all walks of life banding together and at times risking their lives for a cause. Why do they do it? A consistent criticism of contemporary protests from mainstream press is that protesters don't know why or even what the issue of the day is. It would have been easy for Crespo to get waivers from a few people he photographed and ask them their views on direct action or how they got involved. Even a few short quotes would have deepened and enriched an already great pool of information.

Even considering the above criticism I would highly recommend this book to anyone. Its essays are engaging and the photos are sometimes impossible to describe. Though certainly not an academic book, the text and images combine with the subject matter in a way that I think still makes it impossible to read without stirring up critical thought on the events that are defining our times. I have actually participated in about a third of the protests that Crespo covers (and was somewhat surprised not to see me in it) so the book was especially intriguing for me. I can attest that the protests I attended were just as vibrant

and chaotic as they seem in Crespo's photos. If nothing else, *Protest in the Land of Plenty* is an historical photographical testament to the creativity, energy, and tenacity Americans can bring to their politics.

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Böröcz, József, and Melinda Kóvacs, eds. 2001. ***Empire's New Clothes: Unveiling EU Enlargement.*** Central Europe Review, 305 pages, ISBN 1-84287-009-2. http://www.ce-review.org see also http://www.rci.rutgers.edu/~eu/

Concerns about imperial and colonial designs have recently resurfaced in the context of the realignment of political forces within Europe and between Europe and the USA. József Böröcz and Melinda Kóvacs's edited book *Empire's New Clothes: Unveiling EU Enlargement* deals with a related and very crucial aspect of the ongoing reshaping of the European Union, namely the role of empire and coloniality in the process of "eastern enlargement."

In the Introduction, Böröcz argues that the concepts of coloniality and empire, as used in postcolonial studies, are relevant for the study of the current re-division of Europe. According to him, all the institutional elements of an imperial order are present in the process of eastern enlargement. These elements are unequal exchange, coloniality (creating a fixed system of inferiorized otherness through cognitive mapping of populations), export of governmentality (through the standardizing control mechanisms of modern statehood) and geopolitics (global strategy of projecting the center's power to the external world). The EU's approach towards eastern European countries in the process of membership negotiations epitomizes the imperial order in the making. Some important aspects of this imperial outlook are the racial othering of the outsiders based on arguments about irreconcilable cultural and civilizational differences; the creation of a quantitative pattern of inferiorization and exoticization; the notion that post-socialist eastern Europe needs to "catch up" with the western half of the continent culturally and economically; and intensive involvement by prominent EU members in the

candidate countries' economies. For Böröcz, all of these factors have created the sense among east-central European countries that inclusion in the EU is a ratification of their "Europeanness" (or "whiteness"), an idea that is reinforced by the European Union's *synecdoche* representation of itself as "Europe." Böröcz's arguments inform the following six chapters of the book. Most of the essays employ discourse analysis to extricate signs of coloniality from EU documents written in the course of membership negotiations.

Böröcz analyzes the official communications between the Hungarian government and the European Commission (1996–1997) in the second chapter, entitled "The Fox and the Raven: The European Union and Hungary Renegotiate the Margins of 'Europe'." His conclusion is that the communication between the two sides is characterized by asymmetry of power, dependence (of Hungary on the EU), and asymmetry of the addressivity of the two sides' texts. In this way, the EU document denies subjectivity to Hungary and reserves it for only itself, since it monopolizes the power to judge whether the former is deserving of becoming part of "Europe" as defined by itself.

Salvatore Engel-Di Mauro focuses on geopolitics in the next chapter entitled "The Enduring National State: NATO-EU Relations, EU-Enlargement and the Reapportionment of the Balkans." He points out that the bombing of Yugoslavia in 1999 demonstrated that NATO's and EU's policies towards the Balkans have a colonial and imperialist element. Within the context of the partial membership overlap between NATO and the European Union, there is a realignment between Germany and France versus the alliance between the US and Britain. In this setting, the eastern enlargement of the EU is crucial in terms of both gaining the allegiance of the new members of NATO and the export of western European capital into the region. Nevertheless this process is ridden with contradictions since the EU cannot pursue its imperial aims in an unhindered fashion because of the unquestionable military superiority of the US.

In the next chapter entitled "Shedding Light on the Quantitative Other: The EU's Discourse in the Commission Opinions of 1997," Melinda Kóvacs and Peter Kabachnik pick up where Böröcz left off. They analyze the "Political Criteria" sections of the European Commission Opinions on ten east-central European candidates. They argue that the discourse used by the EC reproduces the eighteenth century western European construction of eastern Europe as its inferior other. Kóvacs and Kabachnik identify discursive patterns in all of the Opinions, which underline the othering of eastern Europe. In the EU documents, the ten candidate countries are said to be "lacking" in certain political criteria, there are institutional "obstacles" for their accession to membership, and they are represented as "rustic" (and therefore backward) societies.

The next chapter by Kóvacs continues with a similar discourse analysis of the 1998 and 1999 EU Reports on candidate countries. Inspired by Edward Said's study of Orientalism, she asserts that the EU's perception of the candidate countries is reminiscent of how colonial administrators viewed the "Orientals"—inferior and without subjectivity. Particularly, the EU Reports "put down" (inferiorize) the candidates through various discursive strategies and thus "put off" (delay) their accession to the EU by creating ambiguities.

Anna Sher, in the chapter entitled "A Di-Vision of Europe: The European Union Enlarged," has a similar approach in her analysis of speeches made by three EU leaders. She identifies several discursive strategies that are used in these speeches: dividing Europe along the Cold War axis into the west and the east, grounding this division on the economic and political backwardness of the eastern half, and constructing the western half as "Europe" itself.

In the last chapter, "The Austrian Freedom Party's Colonial Discourse in the Context of EU-Enlargement," Katalin Dancsi studies the 1997 party program of Austria's anti-immigrant and nationalist coalition partner. She argues that the Freedom Party employs a "colonial" dynamics in its political discourse. Particularly, it creates an image of a national self (defining "Austrianness" in an exclusive way), and engages in the othering of outsiders (exclusion of eastern Europeans and immigrants from the construct of the self).

This book is innovative in that it introduces concepts and methodological tools from postcolonial scholarship (coloniality, Orientalism, othering, discourse analysis) to the study of European Union's current enlargement process. But the application of these tools does not penetrate beyond the surface. In all chapters except Engel-Di Mauro's, the authors look for evidence of western European colonial intentions at the level of words and phrases in official documents or speeches, rather than undertake content analysis. Their assertions that certain types of wording in the EU texts are signs of coloniality are not well substantiated.

A further problem in the book pertains to relevance. The scheduled accession of ten countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Cyprus and Malta) into EU membership in May 2004 means that some of the insights in *Empire's New Clothes* are already outdated. That would not have been the case had the book not had certain weaknesses. There is an implicit assumption throughout the chapters that the EU's inferiorization of eastern Europe is bound up with the membership negotiation process. Now that those countries have secured membership, is coloniality over? The answer is probably no. Then, we need a different type of analysis to pinpoint imperial designs. Some information is given in Böröcz's Introduction and Engel-Di Mauro's chapter, but there is need for a more rigorous analysis of

the economic and geopolitical motives behind, and the consequences of, EU's massive undertaking of eastern enlargement. Put differently, the facts pertaining to a new empire in Europe have to be established (or at least cited) before discourse analysis can be persuasive.

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Battilosi, Stefano and Youssef Cassis. 2002. ***European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods.*** Oxford: Oxford University Press, 228 pages, ISBN 0-19-925027-8 (cloth). http://www.oup.com/academic/

Between the 1950s and the 1970s—at the height of 'embedded liberalism'—US banks internationalized significantly, entering the European banking market and often experimenting with new financial innovations that would become central to the global financial order of the 1980s and 1990s. This edited volume explores the history of this transformation in US and European banking, which proved so consequential for the organization of the global economy.

Stefano Battilosi's introductory chapter argues that the foundations of the global financial order of the 1980s and 1990s are to be found in the Bretton Woods years and in the complex patterns of competition and emerging cooperation among US and European banks. Even as European banking markets (such as the eurodollar) grew in importance, they became more Americanized and increasingly central to US global economic and financial hegemony. European governments faced political opposition from the US in attempts to regulate these growing markets and European banks were drawn into these more speculative forms of banking.

Subsequent chapters outline the position of European and US banks before this internationalization process, assessing the competitiveness of the more thoroughly internationalized European banks (Cassis) and the motivation of US banks in entering the European market to escape US regulation (Sylla). Other chapters describe the fortunes of various institutional structures through which international banking was pursued—international financial

centers and clubs and consortia—while a chapter is devoted to the strategies of each of British, French and German banks. Harold James' final chapter returns to the themes of Battilosi's introduction, exploring how the emerging financial markets and the changing interests of the banks within them undermined the efforts in the 1970s of central banks and the Bretton Woods institutions to regulate these new markets.

The great contribution of this volume is to provide a careful, detailed history of the relations among US and European banks in this crucial period and arena where the organizational strategies of the new global financial order were in the making. Combining statistical data, documentary research and case studies, the book provides a comprehensive overview of the emergence of this new organizational space for banking. The most stimulating chapters are those that address these issues of the creation of a new global order directly (Battilosi, James) and those which seek to explain, rather than describe, why different patterns of cooperation and competition emerged (e.g. Ross, Bussière). There is a wealth of historical detail here for the specialist in the development of the global financial system and the volume is valuable in that it gathers together analyses of this emerging field of international banking from the perspectives of different actors in the US and Europe.

Throughout the book, the limited power of the Bretton Woods institutions becomes ever clearer in the face of the emergence of the Euro banking markets, which emerge as a crucial international financial space between US domestic regulation and the relatively static European banking industry. The authors provide multiple examples of the variety of strategies employed by US and European banks and how these strategies interacted to produce a new space for organizational innovations in finance. Perhaps most interesting is the implication that European banking markets were crucial to the process of the financialization of the US economy, despite the imagery of the US as the more 'liberal' regulatory environment for finance during the period. However, few of the authors set out to provide an analytical framework through which we might understand the reasons for these shifts. Given the emphasis on 'competition and cooperation' we might expect a more detailed exposition of the debates in industrial organization regarding how and when firms will engage in different mixes of competitive and cooperative relationships (although this is discussed in Ross' chapter).

It would also have been valuable if more attention had been paid to the political context within which banks shifted their strategies and to government-business relations. There are suggestions throughout the chapters of how bankers themselves attempted to shape the policy environment itself but this is not given any sustained analytical treatment. How might this emergent finan-

cial space have been structured differently? What might have been the consequences for the liberal financial order that emerged from it? What balance of industrial organizational and macro-political forces shaped these new banking strategies and institutions? There are clues and important pieces of information throughout the book but they are not integrated into an overall account of the broader political economy of this transformation of international finance.

The book is a valuable and comprehensive contribution to the history of this important transformation of banking relationships, but provides little explanation of how the dynamics described in the analyses might fit together within a broader framework. The book directs our attention to the importance of this new 'organizational field' where international banking became Americanized through the pursuit of financial innovation in Euromarkets. The wealth of historical detail provides a solid foundation for future analyses of the broader political economy of this organizational field but the current volume will be of interest primarily to specialists in banking history and the particular role of the industrial organization of banking in the shift to a liberal financial order.

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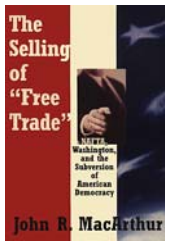
MacArthur, John. 2001. ***The Selling of "Free Trade": NAFTA, Washington, and the Subversion of American Democracy.*** Berkeley: University of California Press, 400 pages, ISBN 0-520-23178-3 (paper). http://www.ucpress.edu/books/pages/9599.html

John MacArthur's *The Selling of "Free Trade": NAFTA, Washington, and the Subversion of American Democracy* is an ambitious book on an important topic.



A study of the political battles surrounding the passage of the North American Free Trade Agreement (NAFTA), *The Selling of "Free Trade"* takes the reader on a journey from the factory floor to the highest levels of corporate and political power and back again. In the process, the book touches on questions of economic restructuring, the ideology of free trade, union and presidential politics, the transformation of the Democratic party, and the consequences of trade legislation for workers in the United States and Mexico.

Although *The Selling of "Free Trade"* has much to recommend it, the book's strengths are often difficult to distinguish from its weaknesses. To his credit,

MacArthur has written a highly readable account of a topic that has been recast in recent years as the exclusive province of technocrats and policy wonks. MacArthur writes about trade policy with flair displaying a keen sense of social justice and never losing sight of the social consequences of trade.

He puts a human face on trade by introducing the reader to Gorica Kostrevski, a Macedonian immigrant working in a stapler factory in Queens, New York. The factory is slated for relocation to Mexico after the signing of the NAFTA and Gorica provides the hook that MacArthur uses to pull the reader away from the esoterica of trade theory to the real-world costs of trade. *The Selling of "Free Trade"* follows Gorica's job: from its origins in a non-union plant, through the acquisition of the family-owned company by American Brands/ACCO, and a union organizing drive and strike that improve wages and working conditions in the plant.

MacArthur then traces the NAFTA debate through the corridors of Congress, presidential ambitions, party politics, corporate lobbying and public relations campaigns. In the concluding chapter, MacArthur seeks out Gorica's counterpart at the newly relocated plant in the Mexican border town of Nogales and finds an illiterate, sixteen-year-old girl working for barely $50 a week in Gorica's old job.

Along the way, *The Selling of "Free Trade"* makes a number of important observations. MacArthur concludes that the NAFTA was never really about trade as much as it was about providing investment security for U.S. corporations operating in Mexico. He points out that Mexican President Salinas was driven to enter into the trade deal out of the desperation caused by Mexico's crushing debt burden. And MacArthur raises other interesting points about the trade-offs that corporations must calculate between low-wages and control over the work process and the possibility of labor becoming so cheap that the process of production is actually "deautomated."

And yet, MacArthur addresses such a wide range of topics that he is unable to examine fully many the arguments he makes or explore their implications. Without a strong theoretical framework to harness its ambitious scope, the book meanders among anecdotes and then, at various points, leaps to grand assertions regarding the nature of the trade deal or politics more generally. The NAFTA, we are told, was "entirely about money (p. 101);" it "was an investment agreement designed to protect American corporations (p. 133);" "politics is self-interest…complete self-interest (p. 201);" "the way politics really works in America" is through the manipulation of public opinion with sales, marketing and advertising (p. 304).

And, while MacArthur invokes Gorica Kostrevski as he travels from Capitol Hill, to corporate seminars and the offices of lobbyists, the link back to

Gorica ultimately proves tenuous, more of a rhetorical flourish than a clearly established connection. In the Afterword, written in 2001 following an initial printing in 2000, we learn that Gorica received educational assistance under the Transitional Adjustment Assistance program in the NAFTA and had found a job cleaning office buildings at $4 an hour more than she earned working in the stapler factory. Given the unequivocally negative conclusions that MacArthur draws about the consequences of trade, this revelation highlights the difficulty that the book has in dealing with a more interesting but more ambiguous story that would take into account unintended consequences and unexpected outcomes.

Moreover, the interviews with elite informants that provide much of the empirical core of the book have limited value if the purpose is to assess the motives and beliefs of these actors. Not only are these actors probably the least credible sources of information on their own motives, but interviews on the topic are not likely to provide much beyond what is available in already published sources. MacArthur acknowledges as much when he discusses his inability to arrange an interview with then Vice President, Al Gore.

Finally, through no fault of its own, *The Selling of "Free Trade"* falls victim to bad timing. Despite the grim storyline, it is difficult not to feel a touch of nostalgia for the political battles that MacArthur documents. Back when it was fashionable to note that there wasn't a dime's worth of difference between Democrats and Republicans, it may have seemed that the Clinton White House was uniquely cynical, that corporate interests completely dominated our political institutions, and that the major media were little more than scribes promoting the administration line.

The Clinton presidency may not have been a golden age of ethical purity and political autonomy. But with the benefit of hindsight, many of MacArthur's assertions regarding the Clinton administration seem hyperbolic. Indeed, having learned what real cynicism and corruption look like during the last two years, it is difficult not to think, "what I wouldn't give for that dime's worth of difference."

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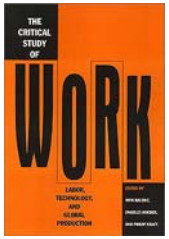
Baldoz, Rick, Charles Koeber and Philip Kraft, eds. 2001. ***The Critical Study of Work: Labor, Technology, and Global Production.*** Philadelphia: Temple University Press, 285 pages, ISBN 1-56639-797-9 (cloth), ISBN 1-56639-798-7 (paper). http://www.temple.edu/tempress/titles/1546_reg.html

Contributors to this volume seek to understand recent global trends in work relations from the ground up, taking the workplace and worker consciousness as their starting point. By assembling these empirically rich and theoretically innovative studies, many of which were presented at the "Work, Difference, and Social Change" conference at Binghamton University in May 1998, Baldoz, Koeber and Kraft have deepened our understanding of the "mechanisms that organize and change work" (p.6). The volume offers a panoramic view of how managers have recently tried to achieve more productive and compliant service sector workers (Part II), industrial workers (Part III) and professional and technical workers (Part IV).



We learn that employers have recently used new technologies to both "deskill" and "reskill" labor, confirming one of the central tenants of Harry Braverman's seminal work on labor process. For example, while managers have recently used computer-based technologies to de-skill labor in the apparel, software and high-tech industries, automobile as well as high-tech industry managers have recently used computer-based technologies to simultaneously re-skill production workers. According to Bonacich, the computerization of the design phase has eliminated the need for apparel manufacturers to keep production staff in house, intensifying the division between conceptual and manual labor. From Sharpe, we learn that the software industry has repeatedly tried to automate software development in order to de-skill the industry's elite labor force. Similarly, Chun notes that computerization of computer component assembly "effectively reduced an entire workforce devoted to board stuffing to performing a single task on the surface mount technology (SMT) line" (p. 137). Yet, by the 1990s, Rinehart tells us that auto employers used computers to compress quality control and design development tasks into production jobs—a process euphemistically referred to as "reengineering." Similarly, as Silicon Valley contract manufacturers have branched out beyond just making printed circuit boards (PCBs) to "a wide array of electronic development, marketing trend analysis and computerized testing" (p. 137), they increasingly expect many of their workers to be multi-skilled.

We also learn about the divergent ways that managers have recently restructured production organization—another strategy to control labor identified by

Braverman but one, the editors note, is often overlooked. For example, Bonacich and Sharpe chart the growing use of subcontracting in the apparel and software industries respectively. At the same time, Chun relays that computer component assemblers have shifted away from subcontracting to capital-intensive contract manufacturing. Similarly, while the software and automobile industries have recently tried to shed internal labor markets, computer component assemblers have recently introduced them. Rinehart traces how the American and Canadian automobile industries gradually shrank the number of mid-level supervisory positions. They dismantled the industry's Fordist and Taylorist labor process with Quality of Work-Life policies in the 1970s, Total Quality Management systems in the 1980s and Re-engineering in the 1990s. Yet, Chun finds that Silicon Valley managers have become more competitive by offering temporary workers the possibility of permanent status.

Finally, we learn that managers have diverged in their reliance on ethnically defined labor recruitment strategies to control labor. According to Bonacich, white apparel manufacturers in Los Angeles continue to employ predominantly Asian subcontractors who then hire mostly Latino immigrant production workers. Nakano Glen shows that private individuals hiring help around the house as well as public care-giving institutions continue to recruit women of color, although immigrant women from poorer countries have begun to replace domestic women. In contrast, Chun finds that Silicon Valley managers no longer recruit workers from within their ethnic community. Instead, they place greater emphasis on fostering the collective pride of workers in high quality production, yielding a more ethnically diverse labor force.

Many contributors also extend labor process theory in new and provocative directions, building on the editors cogent articulation of a new critical study of work. Burowoy opens Part I with an intellectual autobiography that draws on more than 20-years of ethnographic research in the U.S., Hungary and Russia to demonstrate why we should extend analyses of the labor process to include worker-consciousness. Doing so, he argues, will help uncover distinct labor regimes—systems of labor control jointly defined by how workplace managerial strategies interact with the political context.

Based on field work at one of Silicon Valley's new contract manufacturers, Chun concludes that capitalist managers have forged yet another labor regime: flexible despotism. This new labor regime, Chun argues "require[s] more complex and rationalized coordination of worker consent" (p. 129) than Burowoy's market despotism because it subjects workers to "constant layoffs, compulsory overtime, and production shutdowns" (p. 149). Subsequent chapters suggest that flexible despotism may apply equally to non-industrial work settings. Meiksins and Whalley find through survey research that technical professionals working as contingent workers rationalize the high levels of self-discipline needed to earn a living without job security by internalizing a professional etiquette. Similarly, Ó'Riain reveals, with his lively account of Irish subcontractors working for an American software company, how workers in "off-shore" units manage both local and global identities in order to rationalize working hard to meet deadlines imposed by distant managers and simultaneously maintain relationships with future global employers.

Lan challenges us to integrate sexuality, emotions and physical representation into analyses of worker consciousness, particularly when studying labor control mechanisms in the expanding service sector. Although her selection of the Taiwanese cosmetics industry, an industry self-evidently oriented towards managing bodies, weakens her argument somewhat, her research shows how managing bodies can contribute to forging productive service workers. Soares' analysis of cashiers in Québec and São Paulo illustrates how managing emotions and self-representation are key aspects of controlling low-wage service workers, even though he does not reference Lan's thesis.

Haydu reminds us that changes in employer consciousness as well as worker consciousness may shape emergent labor regimes. He shows us that the formation of an embattled employer consciousness helped determine capitalist victory over organized labor in America at the end of the late 19th century.

Those interested in longer historical processes will find Nakano Glen's 100-year overview of reproductive labor and Sharpe's sweeping analysis of capital-labor struggles in the software industry particularly compelling. Those concerned with how workers might resist new managerial strategies will be interested in Soares' descriptions of grocery clerks subverting clients and managers, Bonacich's constructive assessment of recent organizing efforts in Los Angeles' apparel industry, and Webster's sobering analysis of the forces that dampened militancy among South Africa's shop stewards.

Taken together, these studies confirm capital's ability to adopt myriad labor control strategies and demonstrate the advantage of more sophisticated approaches to analyzing the labor process if we want to comprehend (and/or undermine) capital's logic. The volume's geographic breadth and theoretical depth make it a valuable resource for labor scholars and students alike.

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