

SPATIAL-TEMPORAL FIXES AND HEGEMONIC TRANSITIONS
IN THE HISTORICAL CAPITALISM

A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
MIDDLE EAST TECHNICAL UNIVERSITY

BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR
THE DEGREE OF MASTER OF SCIENCE
IN THE DEPARTMENT OF
INTERNATIONAL RELATIONS

SEPTEMBER 2010

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ABSTRACT

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September 2010, 154 pages

This thesis analyzes the historical capitalism in a historical context. Accumulation cycles, hegemonic transitions, and their interrelated structures in the historical capitalism will be discussed alongside inspired prose, and completed final drafts. The thesis will also trace the causes and effects of accumulation cycles and hegemonic transitions and will seek to answer questions such as how and why those cycles and transitions occur, what are the determinants and how and why those determinants effect those processes. Thus, the purpose of this study is to obtain a full perspective of the historical capitalism by analyzing past and present accumulation cycles and hegemonic shifts respectively to provide basis for explaining not only incessant cycles and transitions of the historical capitalism but also current developments in International Relations.

Keywords: Hegemonic Transition, Spatial-temporal Fix, Overaccumulation, Material Expansion, Financial Expansion

ÖZ

Tarihsel Kapitalizmde Uzamsal-Zamansal Düzenlemeler ve Hegemonik Dönüşümler

Taşkesen, Suat

Yüksek Lisans, Uluslar arası İlişkiler Bölümü

Tez Yöneticisi : Doç. Dr. Fatih Tayfur

Eylül 2010, 154 sayfa

Bu tez, tarihsel kapitalizmi, kendi tarihi bağlamında analiz etmektedir. Sermaye birikimi çevrimleri, hegemonik dönüşümler ve bunların birbirlerine bağlı yapıları tartışılacaktır. Bu tez içerisinde ayrıca sermaye birikimi çevrimleri, hegemonik dönüşümlerin nedenleri ve etkileri incelenecek ve bunların nasıl ve neden ortaya çıktıkları, bu sermaye birikimi çevrimleri, hegemonik dönüşümlerin ortaya çıkaran belirleyici unsurlar ve bu unsurların süreci neden ve nasıl etkiledikleri gibi sorulara yanıtlar aranacaktır. Bu nedenle, bu çalışmanın amacı geçmişteki ve günümüzdeki sermaye birikimi çevrimlerini ve hegemonik değişimleri inceleyerek tarihsel kapitalizmin tam bir fotoğrafını almaktır. Böylece tarihsel kapitalizm ve onun evrimsel yapısının açıklanması yanında günümüz uluslar arası ilişkiler alanındaki gelişmelerinde açıklanma olanağı doğmuş olacaktır.

Anahtar Kelimeler: Hegemonik Dönüşümler, Uzamsal-zamansal Düzenlemeler, Aşırı Sermaye Birikimi, Materyal Genişleme, Finansal Genişleme

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INTRODUCTION

Capitalism has demonstrated a highly dynamic, to some extent organic and inevitably expansionary character since its appearance on the historical scene. Driven by the engine of accumulation to appease endless thirstiness of capital, capitalism has continuously and recurrently exposed the world in which we live to several revolutionary changes far more than the other previous accumulation systems- slave and feudal. On one hand it has a great and rather complex potential to fundamentally reshape our lives, on the other hand, irrespective of what it has done, the basic idea behind the capitalism is very concise and simple that is just accumulation.

‘Accumulate, accumulate! That is Moses and the prophets!...Save, save, *i.e.*, reconvert the greatest possible portion of surplus-value, or surplus-product into capital!’ says Marx, then he indicates ‘the historical mission of the bourgeoisie’ is ‘accumulation for accumulation's sake, production for production's sake’¹ to produce more and more surplus value, due to the fact that capitalism needs accumulation, literally endless accumulation to survive.

Accumulation process, however, does not mean a process which is very strictly formed and determined by the historical position of capital; on the contrary as we shall see; it demonstrates a much more flexible and even fluid character in its way of developing solutions to keep the capitalist system alive. Hence, the historical voyage of capital driven by the great passion to endless accumulation does not take place in a consistent course; instead, because of the crisis tendency of the capitalism including high and low-gears of motor of accumulation, the voyage continues on a hilly road. Because of this hilly road, capital goes on its voyage of accumulation sometimes in an uphill manner, or sometimes in a downhill manner. That's

¹ Marx, Karl, Capital, Volume I, trans. Samuel Moore and Edward Aveling, edit. by Fredrick Engels, 1887, p.371

why accumulation process of capital produces some evident *cycles* having both creative and destructive but always progressive disposition in the historical capitalism that 'was brought into existence by a landed aristocracy which transformed itself into a bourgeoisie by radical structural surgery'² in around the late fifteenth and sixteenth century.

As a digression, in this study the historical capitalism refers to an accumulation system which includes not merely exchange processes as previous historical systems did, but production processes, distribution processes, and (re)investment processes. All of these processes *for accumulation's sake* have been conducted by capitalist investors who hold capital has to be reinvested, *lured or compelled* workers who supply labor to produce profitable goods and services, a system of distribution that includes individual and institutional distributors to distribute goods and services into 'market', and finally by a group of buyers who consume supplied goods and services at a price that is greater than the total cost. Such a chain of processes (in other words the circuit of capital) is peculiar to modern times in which we live since sixteenth century. In the previous historical system, however, such a chain was seldom completed as Wallerstein draws our attention; because past accumulation processes usually dependent on accumulation of more of the same.³

However, as a new historical social system, the historical capitalism has built itself on a new structure. This structure 'that is coherent, and has operated effectively for some 500 years' is what we call modern world system. By elaborating 'around the primacy of the endless accumulation of capital' the modern world system 'consists of an intricately constructed and complex set

² David, Wilkinson, World-Economic Theories and Problems: Quigley vs. Wallerstein vs Central Civilization, Journal of World System, Vol.2, No.17, 1996,p.44.

³ Immanuel, Wallerstein, Historical Capitalism with Capitalist Civilization, Verso Books, 1996, p.11-45.

of institutions that has functioned remarkably smoothly and efficaciously over the past 500 years.’⁴

To turn the main focus of this study, as it shall be seen in following chapters, the *evident cycles* of accumulation which share only one umbilical cord with cycles of hegemony are described as systemic by Giovanni Arrighi; because all of which has some basic comparable and repeating features as a result of the steady inclination of capital toward endless accumulation. With its subsequent three hegemonies- Dutch, Britain and American- the modern world system has been experienced four long-term systemic cycles of accumulation since around sixteenth century. These cycles are classified by Giovanni Arrighi as; Genoese–Iberian cycle, Dutch cycle, British cycle and US cycle. Each cycle has been more complex and influential than its predecessor, and has had its own way and means for accumulation of capital as well as for accumulation of power in processes of transition, expansion, restructuring and reorganization.

In this respect ‘cycles of accumulation and cycles of hegemony are [most] probably causally interrelated.’ Since ‘decentralization of accumulation affects the decentralization of political organization’⁵, or in Hannah Arendt’s words, since ‘a never-ending accumulation of power [is] necessary for the protection of the never-ending accumulation of capital’⁶, these two cycles can be likened to Siamese twins who have two heads on just one body.

In this context, if it is agreed to the Arrighi’s suggestion that ‘the expansion of world capitalism [leading by Siamese twins] has been based on the

⁴ Immanuel, Wallerstein, The Modern World System and Evolution, Journal of World System Research, Volume 1, Number 19, 1995, pp. 3-4, 14.

⁵ Frank, A. Gunter and Gills, K. Barry, The Cumulation of Accumulation, in the World System: Five Hundred Years of Five Thousand? (Edited by Andre Gunter Frank and Barry K. Gills), Routledge, 1996, p. 102.

⁶ Arendt, Hannah, The Origins of Totalitarianism , New York 1966,p.143.

emergence of ever more powerful leading capitalist organization'⁷, then it is needed to answer following questions that why and how have these historical capitalism's twins operated with an irresistible expansionary tendency by which the historical geography of capitalism is perpetually reshaped? And how have they changed in regard to the trajectory of the modern world system?

Thus, the purpose of this study is to obtain a full perspective of the historical capitalism by analyzing past and present accumulation cycles and hegemonic shifts respectively to provide basis for explaining not only current developments in IR but also incessant transitions of the historical capitalism. The nature of the topic dictates the use of both a chronological and a comparative analysis of systemic cycles of accumulation at various points throughout the capitalist world history.

During the historical capitalism production of space has been used as a means to get rid of recurrent overaccumulation crises stemming from capitalistic functions which have crisis tendency by nature. Thus, by benefiting from David Harvey's brilliant concepts of spatial fix, switching crises and accumulation by dispossession, in the first chapter of this study, the questions of production of space, how it works and how it brings a temporal solution to the perpetually reiterating overaccumulation crises in the historical capitalism shall be dealt with.

In the second chapter, a conceptual reviewing of both accumulation and hegemony shall be analyzed. On one hand several views on hegemony would be quoted from many authors to make the concept clear and to reach an intelligible definition. On the other hand, by using Marx's general formula of accumulation, $M-C-M'$, accumulation process and its cyclic characteristic shall be expanded from an individual standpoint to a general one to make

⁷ Arrighi, Giovanni, Hegemony Unravelling II, New Left Review 33, May-June 2005, p. 84.

reveal a parallelism between accumulation cycles and hegemonic shifts in the historical capitalism.

In the third chapter, about five-hundred years of capitalist world history and its evolutionary journey from primitive to complex, so from Italian city states to the American World Empire shall be summarized by analyzing each of four successive global accumulation cycles chronologically.

As the last part of this study the fourth chapter includes analyzing of all the accumulation cycles and hegemonies as a whole to make clear what hegemonic transitions are, and why and how they (re)occur throughout the historical capitalism. Because the fourth chapter is concluding section of this study it also includes a deep analysis of US hegemony, especially US-cantered financial expansion period from 1970s onwards to make clear the current developments in IR.

CHAPTER I.

OVERACCUMULATION CRISIS TO PRODUCTION OF SPACE

1.1 Spatio-Temporal Fix (Spatial Fix)

While it has been theoretically neglected in a long period of time the “production of space” is one of the core features in survival and growing up of the historical capitalism. Although Lenin and Luxemburg employ this concept, both writers dealt with it for entirely different and limited reasons, because they just tried to bring a solution to the inner riddle of the capitalism. In this context they suggested ‘production of space’ in the context of the highest stage of capitalism called imperialism as a necessary process to bring solution to the inner contradictions of capitalism;

The more capitalism is developed, the more the need for raw materials is felt, the more bitter competition becomes, and the more feverishly the hunt for raw materials proceeds throughout the whole world, the more desperate becomes the struggle for the acquisition of colonies...the necessity of exporting capital also gives an impetus to the conquest of colonies, for in the colonial market it is easier to eliminate competition, to make sure of orders, to strengthen the necessary “connections” etc., by monopolist methods (and sometimes it is the only possible way).⁸

In addition to these authors Henri Lefebvre was closely engaged in the space dimension of the capitalist system. In his very impressive study of “*The Production of Space*” Lefebvre depicts capitalist globalization process as an intensely contradictory integration, fragmentation, polarization and

⁸ Lenin, V.,I., The Highest Stage of Capitalism, in *The New Imperialism: Analysis of Late Nineteenth Century Expansion*, Edited by Harrison M, Wright, D.C. Heath and Company, Massachusetts, 1961, pp. 33-34.

redifferentiation of superimposed social spaces⁹. According to Lefebvre tension between global integration and territorial redifferentiation leads to a “generalized explosion of spaces” in which the relations among all geographical scales are continuously rearranged and reterritorialized¹⁰.

In fact Lefebvre, in one respect, had implied that without a process of “production of space” a capitalist system could not survive let alone become a global and historical social system. It would eventually be constricted by its own dynamics which cause overaccumulation and unavoidable devaluations; thus its engine of endless accumulation would ultimately burn itself out. In fact, while he asserted very impressive notions, Lefebvre had never explained how this process of “production of space” operates in historical capitalism.

For more than twenty years, David Harvey has propounded theory of a “spatio-temporal fix”, briefly “spatial fix”, to decipher crisis-prone tendencies of the capitalism and its spatial solutions to survive. In his studies-recently *The New Imperialism*-, by intensely considering the scene of the world system for about forty years including overaccumulation crisis of 1970s, advent of “1979 Neoliberal Coup”¹¹, ongoing crises of last three decades,

⁹ H. Lefebvre, *The Production of Space*, [trans. D. Nicholson-Smith, first pub. 1974], Blackwell, Oxford, 1991.

¹⁰ Lefebvre, Henri, *Space: Social Product and Use Value*. In J.W. Frieberg (ed.), *Critical Sociology: European Perspectives*, Irvington Publishers, New York, 1979, p. 289-290. Quoted by Brenner, Neil, *The Urban Question as a Scale Question: Reflections on Henri Lefebvre, Urban Theory and the Politics of Scale*, *International Journal of Urban and Regional Research*, Volume 24, June 2000, p.361.

¹¹ Duménil and Lévy point out that a whole set of transformation towards Neoliberalism had already taken place during the 1970s. The new theoretical and policy trends have been expressed by ‘Monetarism’. However, both authors claimed, the emblematic year for the first emergence of the neoliberalism is 1979, when the Federal Reserve decided to suddenly increase interest rates. This is what Duménil and Lévy call the 1979 Coup. See: Duménil and Lévy *Neoliberal counter Revolution*.

Washington Consensus¹² of the 1990s and finally emergence of the implementation of Project For a New American Century in the new millennium, Harvey has introduced “spatial fix” to explain ‘a connection between processes of capital accumulation and expansionist political-military projects’¹³ and its foundation of dialectical contradiction between capitalistic and territorial logics of power. The worth of the theory of “spatial fix” so much that it “provides a most plausible explanation of why the production of space has been such an essential ingredient of the enlarged reproduction of capitalism¹⁴ throughout the capitalist world history.

The basic idea lies behind the “spatio-temporal fix” is very simple and suggestive:

Overaccumulation within a given territorial system means a condition of surpluses of labour (rising unemployment) and surpluses of capital (registered as a glut of commodities on the market that cannot be disposed of without a loss, as idle productive capacity, and/or as surpluses of money capital lacking outlets for productive and profitable investment). Such surpluses may be absorbed by (a) temporal displacement through investment in long-term capital projects or social expenditures (such as education and research) that defer the re-entry of current excess capital values into circulation well into the future, (b) spatial displacements through opening up new markets, new production capacities and new resource, social and labour possibilities elsewhere, or (c) some combination of (a) and

¹² In the words of Joseph Stiglitz who was chief economist and senior vice president for development economics at the World Bank until the end of 1999, the Washington Consensus was a consensus formulated between 15th Street and 19th Street in Washington among members of the International Monetary Fund (IMF), the U.S. Treasury Department, and the World Bank. It argued that the keys to success in developing countries were three things: macro-stability, liberalization (lowering tariff barriers and market deregulation) and privatization. It was largely formulated out of experience with Latin America. See: Unraveling the Washington Consensus: An Interview With Joseph Stiglitz, *Multinational Monitor*, Vol 21, Number 4, April 2000. Available at: <http://multinationalmonitor.org/mm2000/00april/interview.html> (June 2006).

¹³ Arrighi, Giovanni, *Spatial and Other Fixes of Historical Capitalism*, p.528.

¹⁴ Arrighi, Giovanni, *Hegemony Unraveling* 1, *New Left Review* 32, March-April 2005, p.35.

(b). The combination of (a) and (b) is particularly important when we focus on fixed capital of an independent kind embedded in the built environment.¹⁵

This combination ensures a vital physical infrastructure for the continuation of production and consumption over the space and time. Not just a little part of surpluses, it also has capable of absorbing massive amounts of those uneasy capital as well as labour surpluses under the conditions of rapid and increasing geographical expansion and intensification.

In Harvey's argument the term "fix" has double meaning:

Firstly, the literal meaning of term "fix" indicates lasting fixation of capital in a place in physical form; it draws attention to the reliance of capital accumulation on the existence of a particular built environment of facilities¹⁶. As Harvey suggests;

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 healthcare 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 expansion¹⁷.

Thus;

Fluid movement over space can be achieved only by fixing certain physical infrastructures in space. Railways, roads, airports, port facilities, cable networks, fiber-optic systems, electricity grids, water and

¹⁵ Harvey, David, *The New Imperialism*, Oxford, 2003, p. 109.

¹⁶ Arrighi, *Hegemony Unraveling I*, p.35.

¹⁷ Harvey, *The New Imperialism*, p. 115.

savage systems, pipelines, etc., constitute “fixed capital embedded in the land” (as opposed to those form of fixed capital, such as aircraft and machinery, that can be moved around). Such physical infrastructures absorb a lot of capital, the recovery of which depends upon their use *in situ*¹⁸.

Secondly, as metaphorical meaning of the term “fix”, ‘the spatio-temporal “fix”, on the other hand, is a metaphor for solutions to capitalist crises through temporal deferment and geographical expansion’¹⁹. These solutions depend on the spatial reorganization and/or spatial strategies towards the reduction or elimination of spatial barriers. Thus, as a natural presumption, the unavoidable movement of the surplus capital recommences a new odyssey from its current space under the threat of devaluation to a new space by which the capital can take a fresh, but temporary, breath towards appeasing its insurmountable instinct called endless accumulation. This movement of capital regarding spatial reorganization is natural, spontaneous and even imperative for the sake of capital itself. Driven by competition, individual capitalists seek competitive advantages within this spatial structure and therefore tend to be drawn or impelled to move to those locations where costs are lower or profit rates higher²⁰.

The opening up a new space and its incorporation into the system of accumulation provides an outflow to the crisis of overaccumulation tending to create devaluations²¹ because of boiling surpluses. Thus finding a new

¹⁸ Harvey, *The New Imperialism*, p. 99-100.

¹⁹ Harvey, *The New Imperialism*, p. 115.

²⁰ Harvey, *The New Imperialism*, p.94.

²¹ If the amount of capital in circulation is to remain in balance with the limited capacity to realize that capital through production and exchange-a condition implied by the stabilization of the rate of profit- then a portion of the total capital must be eliminated. If equilibrium is to be re-established, then the tendency towards overaccumulation must be counterbalanced by processes that eliminate the surplus capital from circulation. These processes can be examined under the heading of ‘the devaluation of capital’. See Harvey, David, *The Limits to Capital*, Oxford, 1982, p. 190-203.

spatial route, those surpluses restructure a new space. In this way, the crisis of overaccumulation is “fixed” through ‘temporal deferral’ and “geographical expansion” of the accumulation system. Absorption through “temporal deferral” indicates production of space that means flowing of surplus capital into the new restructured space to meet necessary social and physical infrastructures for the future projects.

In addition to fixing overaccumulation crisis, this flowing process of surplus capital into a new space provides new productive combinations that are made profitable by the spatial expansion of the system of accumulation after the new space has been sufficiently incorporated into the geography of accumulation system. On this account, absorption through the “geographical expansion” connotes the employment of surplus capital in these new productive combinations.

The production of space, the organization of wholly new territorial divisions of labour, the opening up of new and cheaper resource complexes, of new dynamic spaces of capital accumulation, and the penetration of pre-existing social formations by capitalist social relations and institutional arrangements (such as rules of contract and private property arrangements) provide multiple ways to absorb existing capital and labour surpluses.²²

In this context Harvey formulates this process in a concise manner as follow;

The aggregate effect is ... that capital necessarily creates a physical landscape in its own image at one point in time only to have to destroy it at some later point in time as it pursues geographical expansions and temporal displacements as solutions to the crises of overaccumulation to which it is regularly prone. This is the history of

²² Harvey, *The New Imperialism*, p. 116.

‘creative destruction’ written into the landscape of the actual historical geography of capital accumulation²³.

This summary statement of Harvey also implies a geographical variant of Joseph Alios Schumpeter’s process of ‘creative destruction’. As one of the most striking theoretical determination, the concept of “creative destruction” has a senior significance in expression of trajectory of capital. While most of the liberal economists up to Schumpeter have focused upon competition under conditions of static equilibrium provided by a *visible* or an *invisible hand*, he (through his theme of creative destruction) was original in his insistence that not equilibrium but *disequilibrium* among entrepreneurs in the business cycle is the driving force for the development of capitalism.

In sum, Schumpeter argues state of disequilibrium results from innovative activities of capitalist agents, because competing entrepreneurial firms in their widening innovative activities try to dominate innovative processes that are continuously enlarged by coming of new innovations and entrance of new innovators into the market-place. As a result, because competitive and technological advantages of the present dominant firms are unavoidably eroded in favor of innovative agents, economy is perpetually and inevitably in a lasting state of disequilibrium.

According to Schumpeter ‘the fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates’²⁴; and this fundamental impulse has been incessantly maintained by process of creative destruction. He saw the innovative activity performed by

²³ Harvey, The New Imperialism, p. 101.

²⁴ Schumpeter, A, Joseph, Capitalism, Socialism and Democracy, Third Edition 1950, Harper Torchbooks, New York, 1962, p.83.

entrepreneurs as the engine of process of economic development. Thanks to innovative activities cheaper ways to production are found, thus costs and prices of goods and services are reduced. Hence all producers and/or providers are compelled to adjust themselves rapidly to the new economic conditions. Otherwise they are affected negatively and eventually forced out of the market.

To summarize, creative destruction connotes the product and production process innovation mechanism 'that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one...process of creative destruction...is what capitalism consists in and what every capitalist concern has got to live in'²⁵. As the engine of economic development the successive innovations with wave of changes produce new and more advanced orders for present productive units. Such as;

Coal Age technologies gave way to Oil Age technologies which are now giving way to Information Age technologies. With each wave of change, the technological and economic infrastructure of society experiences dramatic transformation, with new institutions, enterprises, and geographic patterns of development created in the process.²⁶

This is exactly what Schumpeter said process of creative destruction;

Economists are at long last emerging from the stage in which price competition was all they saw. As soon as quality competition and sales effort are admitted into the sacred precincts of theory, the price variable is ousted from its dominant position. However, it is still competition within a rigid pattern of invariant conditions, methods of production and forms of industrial organization in particular, that practically monopolizes attention. But in capitalist reality as distinguished from its textbook

²⁵ Schumpeter, Capitalism, Socialism and Democracy, p.83.

²⁶ Hart, L., Stuart, Milstein, B., Mark, Global Sustainability and the Creative Destruction of Industries, Management Review, Fall 1999, Vol. 41, No. 1, p.23.

picture, it is not that kind of competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance) - competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives. This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door.²⁷

Thus, Schumpeter's process of creative destruction is driven by some kind of innovations²⁸, and these innovations include changes in spatial configuration of trade and production. Schumpeter, on the other hand, had 'never spelled out the relationship between innovations that altered the spatial configuration of trade and production and other kinds of innovations.'²⁹ It is the Harvey's brilliance to emphasize the interrelated roles of technological and locational advantages in the process of generating the excess profits by which the Schumpeterian dynamic is driven.

Harvey replaces Schumpeter's *disequilibrium* with *uneven geographical developmental* structure of capitalism. Thus, in Harvey's words, 'locational advantage play a role for individual capitalists similar to those derived from technological advantages, and in certain situations the one may substituted for the other.'³⁰

As Arrighi points out the destructive effects of creative destruction process results from transformation of competition 'into a cutthroat competition that

²⁷ Schumpeter, Capitalism, Socialism and Democracy, p.84.

²⁸ Schumpeter, Capitalism, Socialism and Democracy, p. 83.

²⁹ Arrighi, Hegemony Unraveling 1, p.9.

³⁰ Harvey, The New Imperialism, p. 94.

inflicts widespread losses by making preexisting combinations obsolete.’³¹ The engendered excess profits in words of Schumpeter ‘spectacular prizes’- play a double role in this process. On one hand they stimulate new innovative activities; on the other hand they distribute excess profits to only a small minority of winners, but the large majority receive in very modest return, no return or less than no return. ‘Instead of reaping spectacular prizes, however, the ‘large majority’ propelled into the field activate the competition, which does not just eliminate excess profits, but inflicts widespread losses by destroying pre-existing productive combinations.’³²

The process described by the Harvey is similar to that of Schumpeter’s, but as stated previously he profoundly stresses that not just the innovation and adoption of the latest technologies, but the *production of space*, so seeking out and opening up of the newly opened locations is also crucial in the process of gaining excess profits for individual capitalists and for the survival of capitalism:

search for excess profits through technological chance is not independent of the search for excess profits through re-location. A direct trade-off exists, therefore, between changing technology or location in the competitive search for excess profits . . . [In] both cases the excess profit that accrues to individual capitalists . . . disappears as soon as other capitalists adopt the same technology or shift to equally advantageous locations . . . To the degree that opportunities for excess profits from location are eliminated . . . the closer production approaches some spatial equilibrium condition (the equalization of profit rates across locations, for example), the greater the competitive incentive for individual capitalists to disrupt the basis of that equilibrium through technological change ... Competition...simultaneously promotes

³¹ Arrighi, Giovanni, Beverly J. Silver, and Benjamin D. Brewer. “Industrial Convergence, Globalization, and the Persistence of the North-South Divide.” *Studies in Comparative International Development*, 38:1, Spring 2003): pp. 3-31.

³² Arrighi, *Hegemony Unraveling I*, p.37.

shifts in spatial configurations of production, changes in technological mixes, the restructuring of value relations and temporal shifts in the overall dynamic of accumulation. The spatial aspect to competition is a volatile ingredient in this volatile mix of forces.³³

In the process of production of space, however, capital flows needs to be redirected from one space to another. It is what Harvey calls *switching crises* that is redirection processes by which geographical expansions, reorganizations and reconstructions are enabled. Following subtitle is analyzing the questions of what these switching crises are, and how they work.

1.2 Switching Crises

Spatial fix, on one hand, brings a kind of solution to the repeating overaccumulation crises by using interregional volatility and readdressing capital flows by practicing geographical expansion. In other words it ceaselessly produce a “fixing space” as a solution to convey the overaccumulated capital from its present reserves under the threat of devaluation to a new virgin territory including fresh profitable opportunities for sustained accumulation. As Harvey points out ‘the more open the world is to geographical restructuring, the more easily temporary resolutions to problems of overaccumulation can be found.’³⁴To simplify through a metaphor, if the accumulation is the engine of the historical capitalism; the spatial fix is a kind of fuel for this ceaselessly operating engine. The sort and quality of this fuel is designated by the technological possibilities (such as steam engines, railways, airplanes etc.) by which the developmental level of this engine is determined.

On the other hand, spatial fix with its temporary response to alleviate the overaccumulation crises, also brings its own contradictions that emerge

³³ Harvey, David, *Limits to Capital*, pp 390-3. and Harvey, *The New Imperialism*, p. 94-101.

³⁴ Harvey, *Limits to Capital*, p.428.

within the dynamics of spatio-temporal transformations depending upon uneven geographical development in which surpluses available in one territory overlaps absence of supply elsewhere. As a consequence of production of uneven geographical development by capitalist activities, another completely new region would come on the scene as an absorbent agent for fixed capital soon. And again, due to reoccurrence of overaccumulation crises in the “*former fixing space*”, the overaccumulated capital again needs to redirect itself into the rising “*new fixing space*” to avoid being devalued. Hence;

if the surpluses of capital and labour power exist within a given territory (such as a nation –state or a region) and cannot be absorbed internally (either by geographical adjustments or social expenditures) then they must be sent elsewhere to find a fresh terrain for their profitable realization if they are not to be devalued.³⁵

This redirection process can happen in a number of ways having short term end/or long term effects, says Harvey. Some markets can be found for the exportation of commodity surpluses in return for means of payment such as gold or convertible currency reserves or tradable commodities. However this mechanism provides only an interim relief to the problem of overaccumulation only in the short term; because all made by this process is that it just provides an opportunity to convert surplus from one form to the other one, such as from commodity to money or into different commodity forms, or by this process cheaper raw materials or other inputs can be obtained, then pressure on the profit rates can be alleviated.

If the importing territory does not has necessary financial or real resources to conduct this trading process, it needs to find them by opening or creating resources (as Britain forced India to do by opening up the opium trade with China in the nineteenth century and thus extracting Chinese gold via Indian

³⁵ Harvey, *The New Imperialism*, p. 16-17.

trade), or it is given credit or aid to buy the surplus commodities produced in exporting territory, as British did with Argentina in the nineteenth century, or Japanese surpluses during the 1990s were lent to the US to support the consumerism that purchased Japanese goods, or US aid to Turkey in 1950s and 1960s to purchase US-made military equipment and commodities.

In spite of the fact that such kind of market and credit transactions can bring some short-term alleviation to overaccumulation problem, they, in fact, can not provide perpetual solutions to the problem. On the other hand;

they function very well under conditions of uneven geographical development in which surpluses available in one territory are matched by lack of supply elsewhere. But resort to the credit system simultaneously makes territories vulnerable to flows of speculative and fictitious capitals that can both stimulate and undermine capitalist development and even...be used to impose savage devaluations upon vulnerable territories.³⁶

For about thirty years territorial indebtedness has increasingly become a global problem. Many of the poorer countries (and even dangerously some major powers, like Russia in 1998 and Argentina after 2001- the more a country takes a major place in global economy, the more its crisis affects the whole system) have experienced impasse to pay back their loans. Consequently, to impose some payment rules for debt rescheduling for countries unable to pay off, a permanent organization of nineteen major creditor countries called Paris Club was established.

In a different redirection process surplus of capital accompanied by labour surplus is exported to a new space; such as Britain's surpluses in nineteenth century were canalized to the United States, or several *white European man* colonies were settled such as in South Africa, Australia and Canada; then

³⁶ Harvey, *The New Imperialism*, p. 118.

demand for goods from Britain begun to come from these territories. This kind of redirection process works rather differently and has longer-term effects than process of market and credit transactions.

Since this second process includes project for opening up of new territories to set up a capitalist system, it may take many years for capitalism to fully develop in these new spaces. Therefore they are expected to serve advantages of the *mainland*-like Britain- for a considerable period of time up to they begin to produce overaccumulation of capital and so of labour.

This is particularly the case when the goods demanded elsewhere are to be embedded as fixed capital in the land. Portfolio investments can support the construction of the long-term fixed capital in the land (railroads, dams, highways, ports and other infrastructures) required as a basis for robust capital accumulation in the future. But the rate of return on these long-term investments in the built environment eventually depends upon the evolution of a strong dynamic of accumulation in the receiving country.³⁷

In this purpose Britain lent to Argentina in the last part of the nineteenth century, and as a remarkable example the United States recognized that its economic prosperity strictly depended upon the active revival of capitalist activity in Europe (especially Germany) and Japan; then the Marshal Plan was gone into effect. But Damocles's sword has nevertheless appeared on capital again 'because new dynamic spaces of capital accumulation ultimately generate surpluses and have to absorb them through geographical expansions'³⁸; such as in the late 1960s Japan and Germany has become major competitors against US capital. By the same token recently, although several former absorbent countries such as South Korea, Singapore, and Taiwan have 'moved from being net receiving to net

³⁷ Harvey, *The New Imperialism*, p. 119.

³⁸ Harvey, *The New Imperialism*, p. 120.

exporting territories' to find a spatio-temporal fix for their overaccumulating capital, the China have absorbed 'surpluses in the form of direct investments from Japan, Korean and Taiwan' that 'have to adjust faster to the blowbacks from their own spatial-temporal fixes.'³⁹

Harvey points out two possible general outcomes to this redirection processes by which spatio-temporal fix has been re-experienced through geographical expansion, reorganization and reconstruction. In the first possible outcome the redirection process may occur smoothly, on the contrary the second possible outcome indicates a harsh transformation period.

Thus, in the first possible outcome, under the smooth redirection processes the 'new spatio-temporal fixes open up again and again and surplus capitals are absorbed on an episodic basis.'⁴⁰ This relatively smooth transformation process includes what Harvey calls "switching crises" which 'have the effect of redirecting capital flows from one space to another.'⁴¹

In fact, Harvey does not explain in details what exactly these crises are, and he does not spell out the relationship between overaccumulation crises, spatial-temporal fixes, and switching crises. However in his work of *The Urban Process under Capitalism*, Harvey deals with crises that are produced by overaccumulation and other contradictions in the historical circuits of capital. This kind of crises suggested by Harvey can be classified under the three categories: the first is *partial crises* which affect a particular sector or region of the economy, and are potentially resolvable by institutional or organizational arrangements; the second is *switching crises* which require the redirection of overaccumulated capital from one field or region to

³⁹ Harvey, *The New Imperialism*, p. 121.

⁴⁰ Harvey, *The New Imperialism*, p. 121.

⁴¹ Harvey, *The New Imperialism*, p. 121-122.

another; and finally *global crises* which affect all sectors and all regions (such as the depression of the 1930s and the "stagflation" of the 1970s) and are resolvable only through a comprehensive restructuring of capitalism itself.⁴²

Harvey also notes 'the smooth switching of surpluses of capital and labour from one region to another create a pattern of compensating oscillations ...crises are reduced to minor switching crises as flows of capital and labour switch from one region to another.'⁴³ Thus 'the capitalist system remains relatively stable as a whole...the overall effect of such interregional volatility is to temporarily reduce the aggregate dangers of overaccumulation and devaluation even though localized distress may from time to time be severe.'⁴⁴ Such as, volatility experienced since 1980 or so under the manipulation and/or direction of Wall Street-Treasury-IMF Complex to the advantage of finance capital, Wall Street, and the US economy-namely volatility in the Neo-liberal design of capitalism- can be ranked within this types.

On the other hand, Arrighi derives a useful definition of switching crises that "switching crises" are moments of impasse that stem from resistance to the relocations involved in the spatio-temporal fixes'⁴⁵; and he goes further by concluding 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'⁴⁶ that ' can be best

⁴² See: Harvey, David, *The Urban Process under Capitalism: A Framework for Analysis*. In *The Urbanization of Capital*, pp. 1-31. Baltimore: Johns Hopkins University Press, 1985.

⁴³ Harvey, *Limits to Capital*, p.428.

⁴⁴ Harvey, *The New Imperialism*, p.122.

⁴⁵ Arrighi, *Hegemony Unraveling I*, p.38.

⁴⁶ Arrighi, *Spatial and Other Fixes of Historical Capitalism*,p.529.

viewed from the standpoint of the triple imperatives of production, mobilization and absorption of capital and labor power.⁴⁷

The resistance by which switching crises are engendered originates not only from out of the capitalist arrangements, such as, pre-capitalist societies may resist, or fierce revolutionary movements may emerge and so on; it originates but also from contradictory logic of capital accumulation itself. In fact 'the more capitalism develops,' says Harvey, 'the more it tends to succumb to the forces making for geographical inertia.'⁴⁸

The circulation of capital is increasingly imprisoned within immobile physical and social infrastructures which are crafted to support certain kinds of production . . . labour processes, distributional arrangements, consumption patterns, and so on. The growth of productive forces...act as a barrier to rapid geographical re-structuring . . . 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.⁴⁹

As one of the significant means of reorganization and restructuring of capitalism, the processes of spatial fix does not only bring about economic change as such, it also has political and social consequences. Thus, the forces of geographical inertia may also originate in resistance to the undesired consequences that have decisive influence not only on capital but also on trajectory of capitalism.

At this point, Harvey focuses on correlation between current spatial fix and rising of China as a global power. He approves the China's global role as an absorbent of surplus capital in the present conjuncture. This current

⁴⁷ Harvey, David, *Spaces of Capital*, Roudledge, New York, 2001, p.316.

⁴⁸ Harvey, *Limits to Capital*, p.428.

⁴⁹ Harvey, *Limits to Capital*, p.428-429.

movement of the capital to China 'not only illustrates the potentialities of a contemporary spatio-temporal fix to the overaccumulation problem but it also has relevance to the question of hegemony within the global system.'⁵⁰ Since spatio-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-à-vis the United States.⁵¹

This possibility of emergence of rival as an successor hegemon power in the world system strengthens the forces of inertia and 'makes US resistance to a smooth spatial fix all the more likely, despite the fact that this process holds out the best prospect for a solution to the underlying overaccumulation crisis.'⁵²

As for the Harvey's second possible outcome of redirection process by which geographical expansions, reorganizations and reconstructions has been re-experienced, it seems rather gloomy. In opposition to a first possible outcome, smooth transformation process that includes "switching crises" as we know, a second possible outcome is a fierce large-scale international game among multiple dynamic centers of capital accumulation. At this level the game is played on a global stage and each center, as a player of the game, competes in the face of strong currents of overaccumulation. In the game, since players 'can not all succeed in the long run, either the weakest succumb and fall into serious crises of localized devaluation or geopolitical struggles arise between regions.'⁵³

⁵⁰ Harvey, *The New Imperialism*, p. 122.

⁵¹ Harvey, *The New Imperialism*, p. 123.

⁵² Arrighi, *Hegemony Unraveling I*, p.39.

⁵³ Harvey, *The New Imperialism*, p.124.

In this second possible outcome 'capitalism reaps the savage harvest of its own internal contradictions.'⁵⁴ The geopolitical struggles between dynamic centers;

can get converted via the territorial logic of power into confrontations between states in the form of the trade wars and currency wars, with the ever-present danger of military confrontations (of the sort that gave us two world wars between capitalist powers in the twentieth century)...In this case spatio-temporal fix takes on a much more sinister form as it transmutes into the export of localized and regional devaluations and destruction of capital (of the sort that occurred on a massive scale in East and South-East Asia and in Russia in 1997-8).⁵⁵

In both possible outcomes of the redirection processes, smooth or fierce transformation, there is an association between spatial fixes and hegemonic shifts by which confrontation among leading centers reach a deadlock that is the situation marked by contradiction or paradox, where a desired solution for any agent is impossible to achieve. Because of the fact that 'the unconstrained development of capitalism in new regions caused by capital exports brings devaluation at home (to the leading centers) through intensified international competition. Constrained development abroad limits international competition, but blocks off opportunities for further capital export (for the profitable investment of surplus capital) and so sparks internally generated devaluations.'⁵⁶ Spatial fix has both economic and social dimensions, and if the challenged center is also a hegemonic center in this process, it is exposed to not only deflation of value of its assets, but also deflation of its power in present system as well. And as a result of this doubled deflation process the leading centers that are challenged by the

⁵⁴ Harvey, *Limits to Capital*, p.429.

⁵⁵ Harvey, *The New Imperialism*, p.124.

⁵⁶ Harvey, *Limits to Capital*, p.435.

new emerging centers become uneasy, because the social stability of these challenged centers may be challenged by the social dimensional factors of the present spatial fix process.

As an integral part of the theory of spatial fix, the social dimension can not be ignored, and Harvey, therefore, emphasizes its very importance in redirection processes by making attribution to Hegel's observation in *The Philosophy of Right* in which Hegel claimed that the bourgeois society is unable to solve its inner contradiction-causing maldistribution between social layers of capitalism- through internal mechanism of redistribution. As Harvey suggests, Hegel, on the other hand, argued 'the inner contradictions of bourgeois society, registered as an overaccumulation of wealth at one pole and the creation of a rabble of paupers at the other, drives it to seek solutions through external trade and colonial/imperial practices.'⁵⁷

In the New Imperialism Harvey associates this Hegel's remark with Arendt's statement that 'Hobbes's Commonwealth is a vacillating structure and must always provide itself with new props from outside; otherwise it would collapse overnight into the aimless, senseless chaos of the private interests from which it sprang.'⁵⁸

Harvey suggests Arendt's statement to explain especially the post-Cold War period of American Hegemony. 'The US is a quite extraordinary multicultural immigrant society driven by a fierce competitive individualism that perpetually revolutionizes social, economic, and political life.' To provide unity of such an ethnically mixed and profoundly individualistic society, it is become an indispensable traditional policy to produce "others" (communism, socialism, anarchism, radical religious movements and so on.) and 'inhuman

⁵⁷ See: Harvey New Imperialism, p.125. ; Harvey, Spaces of Capital, chapters 14 and 17; Limits to Capital, pp. 414–5.

⁵⁸ Arendt , Origins of Totalitarianism, p. 142.

attacks of those others” (the best known are Pearl Harbor and 9/11). The policy of ‘producing of others’ is not only essential to strengthen internal cohesion, but also necessary to the creation of both internal and crucially external solidarities. Sometimes ‘the whole country appears so unruly as to be ungovernable.’⁵⁹ In spite of disappearance of *red evil threat* with the end of the Cold War and its unusual booming economy, according to Harvey the 1990s were such a time:

Competition was vicious, the avatars of the ‘new economy’ became millionaires overnight and flaunted their wealth, scams and fraudulent schemes proliferated, scandals (both real and imagined) were everywhere embraced with gusto, vicious rumors circulated about assassinations plotted in the White House, an attempt was made to impeach the president, talk-show hosts Howard Stern and Rush Limbaugh typified a media totally out of control, Los Angeles erupted in riots, Waco and Oklahoma symbolized a penchant for internal opposition and violence that had long remained latent, teenagers shot and killed their classmates in Columbine, irrational exuberance prevailed over common sense and corporate corruption of the political process was blatant. Civil society was, in short, far from civil. Society seemed to be fragmenting and flying apart at an alarming rate. It seemed, as Arendt would put it, in the process of collapsing back into the aimless, senseless chaos of private interests.⁶⁰

Harvey has some misgivings on George W. Bush’s electoral appeal in 2000 ‘was his promise of providing a strong-minded and tough moral compass to a civil society spiraling out of control’. It was September 11 ‘provided the impetus to break with the dissolute ways of the 1990s. It provided the political opening up not only to assert a national purpose and to proclaim national solidarity, but also to impose order and stability on civil society at home.’ In this context, the war on Iraq was not just a diversion from domestic

⁵⁹ Harvey, *The New Imperialism*, p.15.

⁶⁰ Harvey, *The New Imperialism*, p.16-17.

impasse: 'it was a grand opportunity to impose a new sense of social order at home and bring the commonwealth to heel'. Criticism was suppressed as unpatriotic and devilish, and once more the 'evil enemy without became the prime force through which to exorcise or tame the devils lurking within.'⁶¹

Harvey's observations clearly put forth the social dimension of spatial fix. Thus, the velocity of spatial fix is limited not only by resistance to economic relocation and associated geopolitical realignments, but also by resistance to social changes. In both meanings, literal and metaphorical, the spatial fix unavoidably demonstrates a social aspect. The former indicates fixing of capital in the form of roads, railways, factories, schools, harbors, ports etc., in and on the land. In addition to creating a geographical landscape by which accumulation of capital is facilitated; it also produces a new space for social interaction and reproduction. But, opposite to the literal spatial fix the metaphorical spatial fix implies a devaluation of the fixed capital in land that has already lost its attractiveness for investments since emergence of overaccumulation crises, and that is inevitably made obsolete by the incorporation of a new geographical landscape as a new fixing space into the accumulation system. On the other hand it also involves a restructuration process of the human habitat already embedded in the obsolescent geographical landscape of capital accumulation.

In a given society actors who are exposed to some effects of a new event that produces a devastation concerned with their some particular interests, would tend to adopt protective policies in favor of the status quo by which they could survive for a long time. Similarly, by considering 'overaccumulation' crisis of the late nineteenth and early twentieth centuries Karl Polanyi pointed out long ago that such kind of devastations inevitably create an inclination towards 'self protection of society' in both liberal and conservative political form. And such self-protective-based policies are

⁶¹ Harvey, *The New Imperialism*, p.17.

especially mobilized by forces that are suffering from waves of 'spatial fix', and struggle for retarding or reversing the relocation of economic activities and political power.⁶²

Consequently, self-protective tendency of social actors coming from different layers of society strengthens the forces of geographical inertia by which the resolution of the overaccumulation crisis is made more insolvable. However there is a possible solution suggested by Harvey for this impasse: financial means.

Core countries...initially produce then control the disbursement of surplus capital.... have a disproportionate influence upon the financial architecture through which spatio-temporal fixes are predominantly pursued...the emergence of 'Wall Street-Treasury' complex within US...able to control institutions...such as the IMF...has exercised massive influence over the dynamics of global capitalism....rest of the world is networked and...hooked into (and effectively 'hooked on' usually by way of credit arrangements) a structured framework of interlocking financial and governmental (including supra-national) institutions...general picture...is...a networked spatio-temporal world of financial flows of surplus capital with conglomerations of political and economic power at key nodal points (New York, London, Tokyo) seeking...productive paths, more often not in long-term projects across a variety of spaces (from Bangladesh to Brazil or China), or to use speculative power to rid the system of overaccumulation by the visitation of crises of devaluation.⁶³

Harvey calls the deployment of financial means the 'sinister and destructive side of spatio-temporal fixes to the overaccumulation problem'. Because 'the vulnerable territories get hit first...population within those territories...bear the brunt of any burden. It was the rural poor of Mexico, Thailand, and

⁶² Karl, Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* [1944], Boston 1957. Quoted by Arrighi, *Hegemony Unraveling*, I p.42.

⁶³ Harvey, *The New Imperialism*, pp.133-34.

Brazil...suffered most from the depredations that flowed from the financial crises of the 1980s and 1990s.⁶⁴

Furthermore, more importantly Harvey argues;

the sinister and destructive side of spatio-temporal fixes to the overaccumulation problem becomes just as crucial an element within the historical geography of capitalism as does its creative counterpart in building a new landscape to accommodate both the endless accumulation of capital and the endless accumulation of political power⁶⁵

According to proponents of 'complex of institutional arrangements that now mediate flows of capital around the world', it 'should be equipped to sustain and support expanded reproduction (growth) to ward off any trend towards crises, and to seriously address the problem of poverty reduction.' Here, Harvey puts forward answer of a crucial question that 'What would happen, if that project fails? He argues 'if that project fails, it (complex of institutional arrangements) can seek to accumulate by other means.'⁶⁶

Under the following title of Accumulation by Dispossession the process of accumulation by other means and the question of what these other means include shall be investigated.

1.3. Accumulation by Dispossession

When Harvey discusses the flowing of surplus capital in the production of a new space, he inevitably applies to a basic fact in economics. Since 'Surplus capital in shirts and shoes cannot be converted directly into an airport or research institute', financial and state institutions crucially take on a

⁶⁴ Harvey, *New Imp.*, 135.

⁶⁵ Harvey, *The New Imperialism*, p.135.

⁶⁶ Harvey, *The New Imperialism*, pp.135-136.

mediating role to convert unsold inventories and idle productive capacity into infrastructural investment in/on the new space. 'They have the key power to generate and offer credit' which originates from (and is proportional to) surplus capital locked into the production of shirts and shoes, and which is offered to agencies willing to invest and switch it into future-oriented projects, such as airports and highway construction, education and research institutes, or any infrastructural investment involved in the production of new space. As prominent provider of 'the single most important channel for flows of value into social infrastructures', states also, have the power of converting surplus capital into the production of new space through deficit financing, or through the allocation of tax revenues to maintenance and enhancement of social infrastructures.⁶⁷

On contrary to this constructive and harmonious cooperation of financial and state institutions, the wheels of capitalism in the real world usually face with speculative booms and collapses in both land property markets and in government debts guaranteed by the state commitment. Thus 'too much speculation diverts capital away from real production [and trade] and meets its fate of devaluation as a consequence.'⁶⁸ However, 'the curtailment of speculation has equally invidious results from the standpoint of capitalism'⁶⁹ As Harvey argues;

The transformation of spatial configurations in the built environment would be held in check and the physical landscape necessary for future accumulation could not hope to materialize . . . Rampant speculation and unchecked appropriation, costly as they are for capital and life-sapping as they may be for labour, generate the chaotic ferment out of which new spatial configurations can grow...Waves of speculation in the creation of

⁶⁷ Harvey, *Limits to Capital*, p.404, and Harvey, *The New Imperialism*, p.113.

⁶⁸ Harvey, *Limits to Capital*, p.398.

⁶⁹ *Ibid.*

new spatial configurations are as vital to the survival of capitalism as other forms of speculation.⁷⁰

In metaphorical expression accumulation process represents a steersman of a ship called capital, and 'speculative excesses' is cargo of this ship. If the steersman has a specific course to unload its cargo at a harbor, he would naturally follow the instructions on his map to make his journey more stable and more secure. On the contrary, if the steersman does not have a course determined previously, he would probably be indecisive about which direction he had better rotate the ship for the benefit of all including ship, ship's crew and cargo; and more likely there would be no way without prying the god to show a land before an iceberg.

To illuminate, if the accumulation process has a spatial course and play a constructive role in favor of the emergence of the new spatial configurations, it could arrive at profitable harbor shown on map to unload its cargo of speculative excesses, which could provide a considerable expansion in both trade and production.

On the other hand, if accumulation process does not have a spatial course, it would hamper rather than assist the emergence of the new spatial configurations. As time passes the *indecisive steersman*, namely accumulation process, would display a more uneasy mood and appear in a more vicious tendency with its heating cargo of speculative excesses. Eventually it would be inevitable to resort to 'other means':

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

⁷⁰ Ibid.

much about cannibalistic practices and forced devaluations as it is about achieving harmonious global development.⁷¹

According to Harvey these 'other means' are what Marx, following Adam Smith, referred to as the means of 'primitive' or 'original' accumulation.⁷² Before making an assessment on 'primitive accumulation' he begins by approving Rosa Luxemburg's argument that capitalist accumulation has dual characters:

One concerns the commodity market and the place where surplus value is produced - the factory, the mine, the agricultural estate...[Here] accumulation is a purely economic process...between the capitalist and the wage labourer.

The other aspect of the accumulation of capital concerns the relations between capitalism and the non-capitalist modes of production which

⁷¹ Harvey, *The New Imperialism*, p.136.

⁷²In fact, Adam Smith had never used the term 'primitive or original accumulation', it clearly belongs to Marx. On the other hand Smith was the first to indirectly point out this notion by using the term of "the accumulation of stock" as a precondition to emergence of division of labour. Marx's concept of primitive accumulation, in a traditional and general view, indicates a specific historical process in which preconditions emerged for a capitalist mode of production. These preconditions initially refer to the proletarianization of a relatively large segment of the population that has nothing without their labour power to be sold in the newly developed market, and to the accumulation of capital used for newly developed industries.

In sum, here, 'the adjective of "primitive" or "original" is used to stress temporal dimension (the past) of the notion in the historical development of capitalism. It also reflects the condition by which a capitalist mode of production is created and developed. Marx's historically progressive vision of the primitive accumulation has various dimensions 'including commodification and privatization of land and the forceful expulsion of peasant populations; the conversion and various forms of property rights (common, collective, state etc.) into exclusive private property rights, transformations in human-environment relations, commodification of labour power and the suppression of alternative (indigenous) forms of production and consumption; colonial, neo-colonial and imperial processes of appropriation of assets (including natural resources), the monetarization of exchange and taxation (particularly of land), the slave trade, usury, the national debt and finally the credit system as radical means of primitive accumulation process. And, importantly, the state with its monopoly of violence and definitions of legality, takes over a crucial role in both backing and promoting these primitive accumulation processes.' Harvey, *The New Imperialism*, pp.137-152.

Also see: Jim, Glassman, Jim, *Primitive Accumulation, Accumulation by Dispossession, Accumulation by 'extra-economic' Means*, *Progress in Human Geography* 30, 5(2006) pp. 608–625.; and De Angelis, Massimo, *Marx and Primitive Accumulation: The Continuous Character of Capital's Enclosures*, *The Commoner*, September 2001. Available at: www.thecommoner.org (October 2006); and see also Marx, *Capital*, Volume I, Part VIII, Chapters 26,27,28.

start making their appearance on the international stage. Its predominant methods are colonial policy, an international loan system - a policy of spheres of interest - and war. Force, fraud, oppression, looting are [clearly practiced], and it requires an effort to discover within this tangle of political violence and contests of power the stern laws of the economic process.⁷³

As the two size of the same coin these two characters of accumulation, she argues, are "organically linked" and "the historical career of capitalism can only be appreciated by taking them together."⁷⁴ As it has been seen under the subtitle called spatio-temporal fix, since a capitalist accumulation system is unable to solve its inner contradictions, it requires continuously opening up of new spaces by geographical expansion, by which both investment goods and consumer goods could be exported to newly emerging 'outside'. For the stabilization and even survival of the capitalism some sort of 'outside' is necessary to trade and especially 'to invest in profitable ventures using cheaper labour power, raw materials, low-cost land, and so on'. Here Harvey suggests a careful examination of 'inside-outside' dialectics of capitalism, and tries to show how historical geography of capitalism has been shaped by 'organic relation' between expanded reproduction and often violent processes of dispossession of 'outside'. This helps us better understand how dynamics of a capitalist system function, and what the capitalistic form of imperialism is.⁷⁵

As evidence to *systemic cycles* of historical capitalism involving recurrent crises, Harvey makes a remarkable quotation from Arendt on depressions of

⁷³ Luksemburg, R. *The Accumulation of Capital*, Monthly Review Press, 1968, 452-3, trans. A. Schwarzschild, pp. 452-3. Quoted by Harvey, *The New Imperialism*, pp.137-138.

⁷⁴ Ibid.

⁷⁵ See Harvey, *The New Imperialism*, p.138-42.

around 1870s onwards which were concluded with a new form of imperialism performed by present hegemonic power Britain:

Imperialist expansion had been touched off by curious kind of economic crisis, the overproduction of capital and the emergence of “superfluous” money, the result of oversaving, which could no longer find productive investment within the national borders. For the first time, investment of power did not pave the way for investment of Money, but export of power followed meekly in the train of exported Money, since uncontrolled investments in distant countries threatened to transform large strata of society into gamblers, to change the whole capitalist economy from a system of production into system of financial speculation, and to replace the profits of production with profits in commissions. The decade immediately before the imperialist era, the seventies of the last century, witnessed an unparalleled increase in swindles, financial scandals and gambling in the stock market.⁷⁶

This scenario very clearly brings us considering experiences in 1980s, 1990s onwards. Arendt goes on her assessments by confusing us profoundly; in this new form of imperialism bourgeoisie realized ‘for the first time that ‘the original sin of simple robbery’, which centuries ago had made possible, “the [Marx’s] primitive accumulation of capital” and had started all further accumulation, had eventually to be repeated lest the motor of accumulation suddenly die down’.⁷⁷

To summarize, in Arendt’s view, the ‘primitive’ or ‘original’ accumulation processes;

constitute important and continuing forces in the historical geography of capital accumulation. As in the case of labour supply, capitalism always requires a fund of assets outside of itself if it is to confront and circumvent pressures of overaccumulation. If those assets, such as

⁷⁶ Arendt, *The Origin of Totalitarianism*, p.28. And also Harvey, *The New Imperialism*, p. 142.

⁷⁷ Ibid.

empty land or new raw material sources, do not lie to hand, then capitalism must somehow produce them.⁷⁸

Since a similar process drawn by Arent relevant to last quarter of nineteenth century seems to have emerged again in the late twentieth and early twenty-first centuries, Harvey suggests a 'general re-evaluation of the continuous role and persistence of the predatory practices of "primitive" or "original" accumulation within the long historical geography of capital accumulation'⁷⁹. Somehow 'all the features of primitive accumulation that Marx mentions have remained powerfully present within capitalism's historical geography up until now'. There are several indicators says Harvey, such as;

Displacement of peasants population and the foundation of landless proletariat...such as Mexico and India in the last three decades...common property resources such as water, have been privatized,... alternative... forms of production and consumption have been suppressed. Nationalized industries have been privatized. Family farming has been taken over by agribusiness. And slavery has not [completely] disappeared (particularly in the sex trade).⁸⁰

Since 'it seems peculiar to call an ongoing process 'primitive' or 'original', Harvey proposes to replace this term with the concept of '*accumulation by dispossession*'⁸¹ to set it free from ancient captivity of its godfather Marx.

Historically, 'accumulation by dispossession can occur in a variety of ways' including what previously explained in this study with regard to Marx's 'primitive accumulation', such as proletarianization of a segment of the

⁷⁸ Harvey, The New Imperialism, p.143.

⁷⁹ Harvey, The New Imperialism, p.144.

⁸⁰ Harvey, The New Imperialism, pp.145-46.

⁸¹ Harvey, The New Imperialism, p.144.

population, commodification and privatization of land etc.⁸² and there is much that is both contingent and haphazard about its *modus operandi*.⁸³ In a contemporary manner, Harvey's concept of "accumulation by dispossession" indicates four features 'privatisation, commodification, financialization and the management-manipulation of assets, each feeding on the other, supported by the other and gaining strength from the other.'⁸⁴

Despite the fact that the states 'with their monopolies of violence and definitions of legality' play a crucial role, finance capital and the credit system are the major levers of dispossession process. Financial and credit flows 'are vital to productive investments and reallocations of capital from one line of production or location to another'⁸⁵. They also have a crucial role in 'bringing consumption needs (for housing, for example) into a potentially balanced relationship with productive activities in a spatially balanced relationship with productive activities in a spatially disaggregated world market by surpluses in one space and deficit in another'.⁸⁶

The samples on crucial role of the developmental state in dispossession process are also abundant both in past and present; such as Mustafa Kemal's Turkey in 1920s and 1930s and Özal's Turkey in 1980s and so, Meiji's Japan, Bismark's Germany etc. Finally, in recent example of the China's transformation it is clearly seen that crucial role of state is an ongoing issue; and also there is several convincing evidences especially throughout East and South East Asia that state policies has played very

⁸² For details please see footnote 64.

⁸³ Harvey, *The New Imperialism*, p.149.

⁸⁴ Pratyush Chandra, Dipankar Basu, *Neoliberalism and Primitive Accumulation In India*, <http://radicalnotes.com/content/view/32/30/>, Wednesday, 07 February 2007.

⁸⁵ Harvey, *The New Imperialism*, p.131.

⁸⁶ *Ibid*.

important role in determining both intensity and the trajectory of new combinations of capital accumulation.

As for its function in the process of endless accumulation; 'what accumulation by dispossession does' 'is to release a set of assets (including labour power) at very low (and in some instances zero) cost' to solve the overaccumulation problem. 'Overaccumulated capital can seize hold of such assets and immediately turn them to profitable use.'⁸⁷ Accumulation by dispossession can occur both at home and abroad. Extent of the occurrence of it at home firmly depends on capitalistic developmental level of state in which it took place, because 'the more developed capitalistically a state is, the greater the difficulties involved in practicing it at home, and the greater the incentives and the capabilities to practice it abroad.' Initially a capitalist system with its specific geography tends to use profitable internal channels to accumulate, and over time lesser and lesser of these internal channels are left by the accumulation by dispossession. Consequently, absence of new channels causes to emergence of surpluses of capital and labor, and it unavoidably leads to overaccumulation crisis. This crisis can be temporarily dealt with by a new accumulation by dispossession process at home such as privatization of public assets, but it is inevitable reappearance of overaccumulated capital in a relatively short time of period. In this second phrase the overaccumulated capital which exhausts internal channels for accumulation needs to expand itself into new spaces with spatial fix of its own. Therefore, 'accumulation by dispossession is only in part a substitute for spatial fixes to overaccumulation crises.'⁸⁸

According to Harvey capitalism has been experiencing a chronic difficulty of overaccumulation since 1973. Thus, the appearance of neoliberal ideology

⁸⁷ Harvey, *The New Imperialism*, p.149.

⁸⁸ Arrighi, *Spatial and Other Fixes of Historical Capitalism*, p.531.

and its '*divine*' politics of privatization on scene, as a solution to this difficulty, since the late 1970s forms the cutting edge of the present phase of accumulation by dispossession. To illuminate, by the end of the Cold War the former Soviet territories have been directed to 'confess their devilish sins' along with 'holy water' of fierce privatization of hitherto untouched assets. The looting process was performed under the title of 'shock therapy', and on a large scale it was advised and guided by the capitalist centers and the international financial institutions.⁸⁹ Right after, by the same token opening up of China conducted by internal political forces has required major steps to privatization.

Another important dimension of the present phase of accumulation by dispossession is financial crises and their destructive outcomes on non-centric countries. Those crises can not be prevented in a financial system which involves finance capital and credit system to play a critical role to 'coordinate the dynamics of capital accumulation; because finance capital dimension of a system also embraces a lot of unproductive activity in which money is simply used to make more money through speculation on commodity futures, currency values, debts, and the like'.⁹⁰ Owing to the fact that these crises not only devalued assets in these countries are released, but also liberalization waves of capital flows in 1980s and 1990s are

⁸⁹ At the lecture named Globalism in Crisis, Ankara University, Faculty of Political Science, 10th March 2005. Lecturer Boris Kagarlitsky quoted a rather striking memory of him on this fierce privatization process. As for the story, a public hotel located in the center of the Moscow had been sold about 1,500 USD in the name of privatization by advised 'shock therapy' period of 1990s, however when he has been investigating this privatization case Kagarlitsky have learned from an expert that the only price of the chandelier hanged on the lobby of the hotel could amount to about 1,000 USD in an auction sale. This case helps us to clearly understand the looting dimension of the so-called privatization process performed by capitalist powers in the former soviet territories.

⁹⁰ Harvey, The New Imperialism, p.132.

interrupted.⁹¹ Asian crisis of 1997-98 was a sufficient example to these crises.

Such financial crises, moreover,

have always caused transfers of ownership and power to those who keep their own assets intact and who are in a position to create credit, and the Asian crisis is no exception . . . there is no doubt that Western and Japanese corporations are the big winners . . . The combination of massive devaluations, IMF-pushed financial liberalization, and IMF-facilitated recovery may even precipitate the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world, dwarfing the transfers from domestic to US owners in Latin America in the 1980s or in Mexico after 1994. One recalls the statement attributed to Andrew Mellon: 'In a depression, assets return to their rightful owners.'⁹²

In spite of its expansionary character capitalism, inevitably, is a closed 'global' system; therefore there is always a possibility for regional crises to lead a global collapse by creating a domino effect, or to cause some harsh protests against the system. To avoid this possibility, the main capitalist powers (such as the US) that are the supervisor of the whole system for their specific advantage need to 'organize 'bail-outs' to keep global capital accumulation on track'. The mixture of coercion and consent can be clearly seen in such bail-outs varies considerably.

However it reveals, points out Harvey;

how hegemony gets constructed through financial mechanisms in such a way as to benefit the hegemon while leading the subaltern states on the supposedly golden path of capitalist development. The umbilical

⁹¹ See, Harvey, *The New Imperialism*, pp.149-150 and also pp.156-161.

⁹² Wade, Robert and Veneroso, Frank, *The Asian Crisis: The High Debt Model versus the Wall Street-Treasury-IMF Complex*, *New Left Review* 1/228, March-April 1998, quoted in Harvey, *The New Imperialism*, pp.150-1.

cord that ties together accumulation by dispossession and expanded reproduction is that given by finance capital and the institution of credit, backed, as ever, by state powers.⁹³

Furthermore, one of the striking features of the present accumulation by dispossession is that some completely new mechanisms have been opened up in this process. The emphasis upon intellectual property rights in the WTO negotiations (the TRIPS agreement) indicates the ways in which the patenting and licensing of genetic materials, seed plasmas, and all manner of other products, can now be used against whole populations to the benefit of a few capitalist entrepreneurs. Moreover, increasing using up of global environmental commons (land, air, water), and in a large scale commodification of nature in all its forms in the capital intensive modes of agricultural production process; commodification of cultural forms, histories and intellectual creativity requires wholesale dispossessions (such as music industry exploits whatever it could find in grassroots culture and creativity); privatization of hitherto public assets such as universities, and all kind of public utilities as water. Not surprisingly, these policies of dispossession pursued in the name of neoliberal orthodoxy are frequently carried out and imposed by the power of state even against popular will.

Eventually, with its never-satisfied instinct of thirsty to accumulation, capitalism easily internalizes cannibalistic as well as predatory and fraudulent practices 'lest the motor of accumulation suddenly die down'. As a whole, we are now in the middle of the historical scene to see the connections among spatio-temporal fix, accumulation by dispossession, switching crises, state power, and the forms of contemporary hegemonic developments or the *new imperialism*.

⁹³ Harvey, *The New Imperialism*, p.151-52.

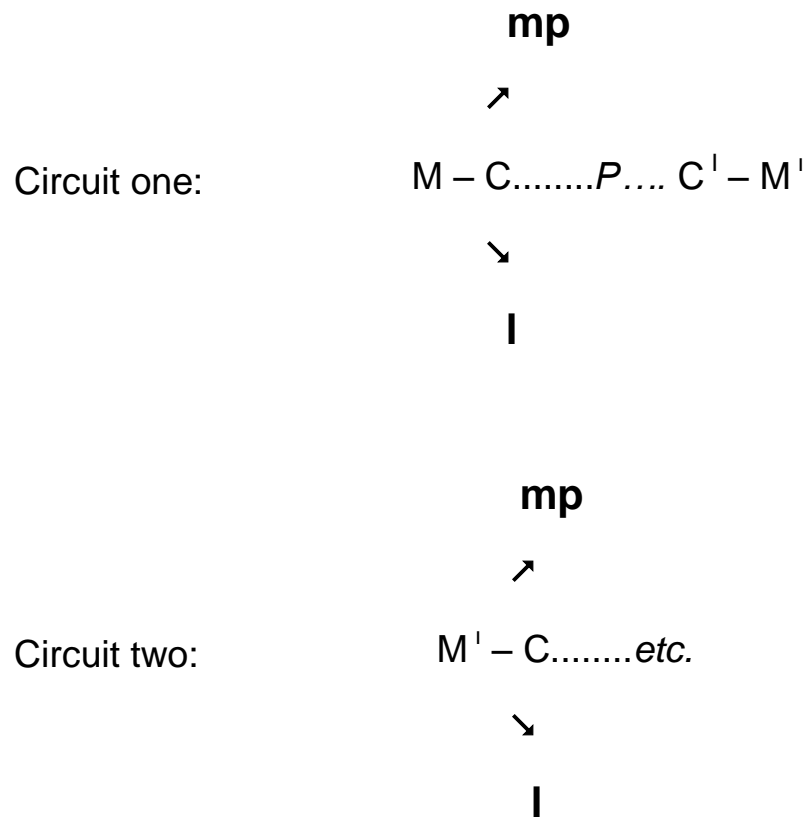
CHAPTER II.

THE STORY OF ACCUMULATION AND THE QUESTION OF HEGEMONY

2.1. Accumulation in Cycles

If accumulation is motor of a capitalist system, then the circulation of commodities is initial starter of this motor. To paraphrase Marx, the production and circulation of commodities in which the more developed circulation is named commerce form the historical base for accumulation of capital. Thus, in this context 'the modern history of capital [towards endless accumulation] dates from the creation in the 16th century of a world-embracing commerce and a world-embracing market.'⁹⁴ As appreciated, an in-depth analysis of accumulation process shall not be included in this study, but briefly; Marx made a detailed analysis of endless circulation of capital and its functions through all phases of the reproduction process. Illustrated in a formula as follow:

⁹⁴ Marx, Karl, Capital, Volume I, Part II, Chapter V, p. 89. See also this Chapter for relation among commodity, money and capital. Here Marx summarizes, 'if we abstract from the material substance of the circulation of commodities, that is, from the Exchange of the various use-values, and consider only the economic forms produced by this process of circulation, we find its final result to be money: this final product of the circulation of commodities is the first form in which capital appears.'



Here, considering capitalist accumulation process as a social process M represents money-capital, C the sum value of commodity capital, L labor capital, MP is means of production, P stands for production process and finally apostrophes in M' and C' indicate producing of surplus value in commodity values and in their money representation, thus $M' = (M+m)$ and $C' = (C+c)$. Dashes in this formula, moreover, stand for exchange in relation and the points represent production relations. As a whole, Marx's formula indicates the eternal course of capital called "circuits of capital" in the phases of money capital, productive capital and commodity capital. Therefore by combining these two circuits we can obtain a general formula of the "circuits of capital" to endless accumulation which involves two interrelated processes as;

$$M - C - M^I$$

Capitalists who have a quantity of money (M) make investment by purchasing goods or machines (C) for trade. It is crucial to stress that the purpose of this investment is not production; it is the accumulation of capital by obtaining some increase, m , in the quantity of the initial money, M , namely, of the initial stock. Finally as initial stock, the initial money, M , is augmented to $M + m = M^I$

Here M means flexibility; it is the stock that can be easily and flexibly deployed in whatever way is found as the most profitable for 'accumulation's sake'. C , on the contrary, indicates rigidity; in which some amount of money are temporarily locked up in some very limited options for a specific purpose to obtain profit. M^I , on the other hand, means expanded liquidity, flexibility and freedom of choice for investment opportunities to accumulation.

By reconstructing this general formula of endless circulation of capital, (MCM^I), from Marx's *individual-capitalistic* perspective to the *macro-global* perspective, Arrighi suggest that it is "not just the logic of individual capitalist investments" pursuing more and more profitable ways; "but also a recurrent pattern of historical capitalism as world system"⁹⁵. In this context, since its birth, capitalism has experienced a series of cycles, each of which has two basic epochs: *material expansion* and *financial expansion*.

The epoch of *material expansion* means the $M-C$ phase of a cycle, in which 'money capital sets in motion ever increasing mass of commodities (commoditized labour power and gifts of nature included)'; as to *financial expansion*, it is the CM^I phase of a cycle in which 'an increasing mass of money capital sets itself free from its commodity form and accumulation

⁹⁵ See: Arrighi, *Hegemony Unraveling II*, Arrighi and Silver *Capitalism and World Disorder*, see also Arrighi, *The Long Twentieth Century*, pp.1-26.

proceeds through financial deals (as in Marx's abridged formula MM^I)⁹⁶. When considered together these two interdependent epochs or phases form a full *systemic cycle of accumulation* (MCM).

Arrighi remarks four such systemic cycles of accumulation in the historical capitalism as the world system. These are the Genoese –Iberian cycle, from fifteenth to early seventeenth centuries; the Dutch cycle, from the late sixteenth to the late eighteenth centuries; the British cycle, from the mid eighteenth to the early twentieth centuries; and finally US cycle, from the late nineteenth century to its current financial phase of expansion.

By taking over capitalistic inheritance from its predecessor, each of these cycles emerges in a larger and more comprehensive economic and politic sphere of capitalist activity. On one hand, each of them is based on different forces of production, different principle forms of investment and accumulation, different configuration of accumulation and state; on the other hand each of which have unavoidably experienced two epochs - material and financial expansions MCM -, and each of which has had its own spatial fix.

The material expansion needs to be experienced under the insurance and protection of a hegemonic power and a hegemony-based system in which capitalists in leading capitalist centers engage in material expansion epoch, MC, of present accumulation process. This kind of expansion includes not only material production but also material trade. It is crucial here that this material expansion epoch, MC, closely depends on investment in real economy in which a sustained expansion of material production is highly stimulated. This process has the effect of setting the other capitalists into motion to replicate the enterprises of leading centers' capitalists who get high levels of profits from their activities. As intensity of the competition is increased through each newcomer capitalist into the system, profit rates obtained from material investments are gradually decreased; and more

⁹⁶ Arrighi and Silver, *Capitalism and World Disorder*, p.260.

crucially 'as the present accumulation system of trade and production tends to generate more capital than could be absorbed profitably within the confines of the extant spatial-temporal fix, thereby threatening to drive down overall returns to capital and thus deflate its value.'⁹⁷ Consequently profit opportunities of leading centers' capitalists under the protection and dominance of hegemonic power to make high levels profits are gradually vanished, and causally the financial expansion is triggered as the second epoch of present cycle.

In addition to increasing inter-capitalist competition, inter-state competition also would be seen. As states of other capitalists appear on the interstate arena to support needs and interests of their own capitalists, the heated geopolitical competition and military oriented policies also increase. This provides capitalists who have reaped the benefit of epoch of material expansion, and gotten considerable surplus capital to change their investment options from commodity capital to financial instruments, CM epoch, particularly government debt. Government debt assuring high rates of return and low risk plays a crucial role at this stage, due to the fact that returns is committed by the states having coercive taxation capacity 'with their monopolies of violence and definitions of legality'. As we have seen previously this finance capital or in other words financialization of accumulation process also embraces a lot of unproductive activities by which various kinds of speculative investments that generate recurrent bubbles are produced. Furthermore, as Harvey underlies 'finance capital backed by state power frequently amounts to accumulation by other means' plays a crucial mediating role both in the production of space and in the cannibalistic practices and forced devaluations that forms the core of accumulation by dispossession.

⁹⁷ Arrighi, *Spatial and Other Fixes of historical Capitalism*, p.536.

Finally, gradual departure of the leading centers' capitalists from material expansion to financial expansion – namely from MC to CM phase – gives an opportunity to some other group of capitalists to fill that space in material production. Activities of this some other group of capitalists are in a large scale backed and conducted by their own states with military deterrence dimension. When this happens, most probably it means the bells are ringing for a new cycle of expansion in the world capitalist system.

To combine his view of systemic cycles of accumulation and Harvey's theoretical considerations concerning finance capital on a historical base, Arrighi brings the Fernand Braudel's observations on the scene. Although Arendt asserts that finance capital has been an unavoidable development of industrial capitalism of nineteenth century resulting in 'oversaving that is the accumulation of capital which was condemned to idleness within the existing national capacity for production and consumption', and emergence of 'superfluous money needed by nobody though owned by a growing class of somebodies'⁹⁸; Braudel, on the other hand, argues finance capitalism, or financialization, 'was no newborn child of the 1900s.' In fact,

in the past—in say Genoa or Amsterdam—following a wave of growth in commercial capitalism and the accumulation of capital on a scale beyond the normal channels for investment, finance capitalism was already in a position to take over and dominate, for a while at least, all the activities of the business world⁹⁹.

To Arrighi, this statement of Braudel has a double significance. Firstly, it implies finance capital, namely financialization, historically (has a capacity 'to take over and dominate, for a while at least, all the activities of the business

⁹⁸ Arendt, Hannah, *The Alliance Between Mob and Capital*, in *New Imperialism*, p.103.

⁹⁹ Fernand Braudel, *Civilisation and Capitalism, 15th–18th Century*, vol. 3: *The Perspective of the World*, translation from the French by Siân Reynolds, Berkeley, CA : University of California Press, 1992, c1984, p. 604. Also Arrighi –Silver, *Capitalism and World (Dis)order*, p. 259.

world') has been the result of a recurrent overaccumulation of capital ('the accumulation of capital on a scale beyond the normal channels for investment'). And secondly, it demonstrates that this tendency towards the repeated overaccumulation and financialization of capital was in evidence long before capitalism became associated with industrialism¹⁰⁰.

By providing a list of dates, places, and agencies in the capitalist world history, which clarifies cyclic course of accumulation processes, Braudel sensibly characterizes the position and role of the financial expansion as a symptom of maturity in a particular capitalistic developmental level in *systemic cycles*. This Braudel's characterization also facilitates for us to locate Harvey's theoretical discourse on finance capital in space and time of world capitalist history. In dealing with withdrawal of the Dutch from commerce around 1740s to become 'the bankers of Europe', Braudel points out disposition of this phenomenon that this withdrawal has reflected to recurrent character of world-systemic tendency. The same tendency can be seen in Italy of fifteenth century, and again around 1560s when the Genoese business diaspora gradually withdraw from commerce and took over financier role over European finances. By the same token after the Dutch, this tendency was duplicated by English during and after the Great Depression of 1873–96, when the end of 'the fantastic venture of the industrial revolution' produced the *superfluous money* capital. Finally, by following a similar 'fantastic venture' way of so-called Fordism-Keynesianism in twentieth century, the tendency has been going on to determine destiny's of world capitalist trajectory since 1970s to present under the hegemonic label of United States. As suggested by Braudel it seems that 'every capitalist development of this order [which has a cyclic character throughout the world

¹⁰⁰ Arrighi, *Hegemony Unraveling II*, p. 85.

capitalist history] seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: *a sign of autumn*'.¹⁰¹

Material and financial expansions are both episodes of a cyclic system of accumulation which is larger in scale and scope than previous one, on the contrary smaller than following accumulation system. Each cycle, namely system of accumulation, is begun by a material expansion epoch which takes place 'because of the emergence of a particular bloc of governmental and business agencies capable of leading the system towards a new spatial fix that creates the conditions for wider or deeper divisions of labour that create conditions of increasing returns to capital invested in trade and production.'¹⁰²

With the beginning of material expansion process, capital is intensively and increasingly reinvested in expansionary and profitable fields of trade and production.

'As a rule major material expansions [experienced throughout the world capitalist system] have occurred only when a new dominant bloc accrued sufficient world power to be in a position not just to bypass or rise above inter-state competition, but to bring it under control and ensure minimal inter-state cooperation.'¹⁰³

Here, among leading centers of the system, cooperation has a stronger influence than competition, because each of these centers has its own complementary means and/or role in the newly established system. However, as far as *the long history* of world capitalist system is considered this profitable and expansionary epoch of material expansion indicates a sudden and short-lived prosperity process. Within a relatively short period of

¹⁰¹ Fernand Braudel, *Civilisation and Capitalism, 15th–18th Century*, pp.246. See also: Arrighi –silver, *Capitalism and World (Dis)order*, p.260, Arrighi *Hegemony Unraveling II*, p. 86.

¹⁰² Arrighi and Silver, *Capitalism and World (Dis)order*, p.262. See also Arrighi, *Hegemony Unraveling II*, p. 87.

¹⁰³ Arrighi and Silver, *Capitalism and World (Dis)order*, p.12.

time the investment of an increasing mass of profits in trade and production unavoidably leads to the problem of overaccumulation. As we have seen previously to Harvey 'overaccumulation within a given territorial system means a condition of surpluses of labour and surpluses of capital'; in other words according to Arrighi it indicates a stage of present system of accumulation in which 'the accumulation of capital [is] over and above what can be reinvested in the purchase and sale of commodities without drastically reducing profit margins'¹⁰⁴; similarly according to Patrick Bond 'overaccumulation refers, simply, to a situation in which excessive investment has occurred and hence goods cannot be brought to market profitably, leaving capital to pile up in sectoral bottlenecks or speculative outlets without being put back into new productive investment'.¹⁰⁵

Consequently, at this stage of accumulation called overaccumulation which indispensably triggers the financial expansion epoch, because of the shrinking profitable investment areas in a system including several resources ranging from technological, geographic to social possibilities, the winds of change eventually blow from cooperation to competition among capitalist agencies, and a heating competition process is begun among them to capture each other's operation fields to reinvest their capital. Thus, the cooperation supported by the division of labour in the material expansion epoch is replaced by the competition which increasingly becomes vicious. At this point, the major strategy adopted by capitalist agencies is liquidation of the capital from trade and production to cash flows, so 'capital movement rather than trade (in both goods and services) [becomes] the driving force of the world economy.'¹⁰⁶ It basically indicates a transition period from material

¹⁰⁴ Arrighi, *Hegemony Unraveling II* p.87, arrighi silver, capitalism and world (dis)order, p.262.

¹⁰⁵ Patrick Bond *Global Economic Crisis: A View from South Africa*, *Journal of World System Research*, Vol. 5, No. 2, p. 420-21.

¹⁰⁶ Iain Wallace, *The Global Economic System*, p. 7.

to financial expansion in which the capital is liquified toward financial means to raise mobility power of capital in the present process of spatial-temporal fix in world capitalist system. In British hegemony this transition period to financialization came after the end of Hobsbawm's Age of Capital (1848-75) which dates a major material expansion period; similarly by the end of the golden age of 1950s and 60s of the material expansion period of American hegemony which 'was the most sustained and profitable period of economic growth in the history of world capitalism'¹⁰⁷, a new financialization wave have embraced the world economy from 1970s to present. In these both cases of the rising of finance capital in the accumulation system called financialization means resurgence of some imperialistic practices toward spatial fix of the present system.

As suggested by Arrighi, in all financial expansions which reflect a recurrent feature of historical capitalism since the sixteenth century, the accumulation of surplus capital in liquid form has three main effects. First, as mentioned before it transforms surplus capital embodied in landscapes, infrastructures and means of trade and production into an expanding supply of money and credit. This transformation is crucial for the transferring of surplus capital from declining centers to rising ones and/or sectors of capitalist trade and production to accumulate. Second, by accompanying closedown of the material expansion epoch it deprives governments and populations of the revenues that they previously derived from the trade and production that were no longer undertaken because unprofitable or too risky. Finally, as a consequence of first two effects, it creates highly profitable market niches for financial intermediaries capable of channeling the growing supply of liquidity into the hands of either governments and populations in financial straits, or of

¹⁰⁷ Thomas, McCormick, *America's Half-Century : United States Foreign Policy in the Cold War*, Baltimore 1989, p.99. Quoted by Arrighi, *Hegemony Unraveling II*, p.107.

public and private entrepreneurs intent on opening up new ways of profit-making in trade and production.¹⁰⁸

As a corollary, because they have key positions to control related market niches, the leading forces of the preceding material expansion epoch lead the system of accumulation that evolves toward the financial expansion. However, financial expansions are not sustainable because they are eventually drawn into speculation more than could actually be managed.¹⁰⁹ Therefore because of their fundamental unsustainability that leads to recurrent financial crises ‘the periods of financial expansion are not just an expression of cyclical processes of historical capitalism—as emphasized by Braudel; rather they also have been periods of major reorganizations of the world capitalist system—what [is called] hegemonic transitions.’¹¹⁰ Thus, ‘in the course of which [financial expansion] a new leadership emerged interstitially and overtime reorganized the system so as to make its further [material] expansion possible.’¹¹¹

2.2. Views on What Hegemony Is

The concept of hegemony in the world capitalist history is usually used in analyzing and relating the story of Europe-centered modern world capitalist system. Although it is a very useful and supplementary key in explaining the capitalist progress, it has many different definition depending on narrator’s own view of historical evolution; such as, definitions of hegemony and hegemonic power in a Marxian approach may be very distinctive than in a liberal approach. Furthermore a definition of hegemony can demonstrate

¹⁰⁸ Arrighi *Hegemony Unraveling II*, p. 88.

¹⁰⁹ Giovanni Arrighi, *The Winding Paths of Capital*, Interview by David Harvey, *New Left Review* 56, March-April 2009, p.90.

¹¹⁰ Arrighi and Silver, *Capitalism and World (dis)order*, p. 258.

¹¹¹ Arrighi and Silver, *Capitalism and World (dis)order*, p. 261.

some differentiates according to narrated epoch in which a hegemonic period is experienced by a hegemonic power; for example 'compared with the British [hegemony] in nineteenth century and the US [hegemony] in the twentieth century, the seventeenth century Dutch [hegemony] appear to be a pale shadow of what a world hegemony should be.'¹¹²

There are several definitions in literature on what hegemony is, and it is clear that this abundance of definitions will go on to increase continuously. The word is derived from the Greek "*hegemonia*"; but as David Wilkinson points out in his article in which he makes a detailed analysis of the concept of the hegemony in its both classical and modern literatures;

"We can derive some useful shades of meaning of "hegemony" from the need felt by the translators of classics to translate hegemonia differently in different contexts, as power, leadership, command, supremacy, dominance, dominion, lordship, sovereignty, and empire. But the historically most central meaning, and the most useful for both comparative and contemporary usage, appears to be command, especially supreme command."¹¹³

Here, some authors' descriptive views on hegemony and its function in the modern world system shall be dealt with. While Gramsci mainly 'centered upon the state, upon the relationship of civil society to the state, and upon the relationship of politics, ethics and ideology to production' and 'did not have very much to say directly about international relations'¹¹⁴, he makes a remarkable definition of hegemony by explaining how the dependence of economic growth on profitability gives capitalists a hegemonic position over

¹¹² Taylor, J., Peter, Dutch Hegemony and Contemporary Globalization, p.2.

¹¹³ David Wilkinson, Hêgemonía: Hegemony, Classical and Modern, Journal of World system Research, Volume 14, Number 2, p.138.

¹¹⁴ Robert, Cox, Gramsci, Hegemony and International Relations: An Essay in Method, Millennium, 12(2), 1983, p.162.

state and cultural institutions even without direct control.¹¹⁵ Thus in Gramsci's words, hegemony, as a combination of force and consent in capitalist parliamentary system, demonstrates itself in three dimensions: intellectual, moral and political. The first two dimensions refer to leadership and consent; on the contrary the political dimension refers to domination, force and coercion. Therefore, to Gramsci, in borders of an individual parliamentary capitalist state system not in interstate standpoint, hegemony is;

‘the supremacy of a social group manifests itself in two ways, as “domination” and as “intellectual and moral leadership.” A social group dominates antagonistic groups, which it tends to “liquidate”, or to subjugate perhaps even by armed force; it leads kindred or allied groups.’¹¹⁶

To Arrighi the concept of hegemony ‘refers specifically to the power of a state to exercise functions of leadership and governance over a system of sovereign states.’¹¹⁷ To Gill and Frank, it should be defined in the context of accumulation processes of historical capitalism, in this way the definition of hegemony becomes more general, and therefore perhaps more flexible. Thus to them, hegemony may be defined as;

‘a hierarchical structure of the accumulation of surplus among political entities, and their constituent classes, mediated by force. A hierarchy of centers of accumulation and polities is established that apportions a privileged share of surplus, and the political economic

¹¹⁵ See: Bosswell, Terry, American World Empire of Declining Hegemony, Journal of World System Research, Vol. 10, No.2, Summer 2004.

¹¹⁶ Antonio Gramsci, Selections from the Prison Notebooks, New York:International Publishers, 1971, p.57-58. See also: Arrighi and Silver, Chaos and Governance in the Modern World System, p. 26. Also see: Arrighi, The Long Twentieth Century, p. 28.

¹¹⁷ Arrighi, The Long Twentieth Century, p. 27.

power to this end to, the hegemonic center/state and its ruling/propertied classes.’¹¹⁸

‘A world leader’ Terry Boswell argues ‘becomes hegemonic when the institutional order it enforces builds inertia into the otherwise chaotic movement of the system. Hegemony is a period of relative peace and order in a system that is inherently competitive, dynamic and uneven.’¹¹⁹ Boswell’s statement of “relative peace and order” is clearly reminiscent of Robert Keohane’s observation on hegemony;

‘strong international economic regimes depend on hegemonic power. Fragmentation of power between competing countries [states] leads to fragmentation of the international economic regime; concentration of power contributes to stability [in a capitalistic world system]. Hegemonic powers have the capabilities to maintain international regimes that they favor. They may use coercion to enforce adherence to rules; or they may rely largely on positive sanctions – the provision of benefits to those who cooperate. Both hegemonic power and the smaller states may have incentives to collaborate in maintaining a regime [as parallel to what we discuss in material expansion epoch of a systemic cycle of accumulation] - the hegemonic power gains the ability to shape and dominate its international environment, while providing a sufficient flow of benefits to small middle powers to persuade them to acquiesce.’¹²⁰

Another explanation for hegemony comes from Modelski and Thompson who assert that the order -not chaos- is required by the world and the main

¹¹⁸ Gills, K., Barry, Frank, G., Andre, World System Cycles, Crises, and Hegemonic Shifts, 1700 BC to 1700 AD, in *The World System: Five Hundred of Five Thousand*, p. 146.

¹¹⁹ Boswell, Terry, Hegemony and Bifurcation Points in World History, *JWSR*, 1995, Volume 1, Number 15, p.2.

¹²⁰ Keohane, O., Robert, *The Theory of Hegemonic Stability and Changes in International Economic Regimes*, 1967-1977, 90-91.

world powers occasionally¹²¹ struggle with each other to rise and to meet this requirement according to their own advantages. Thus, in a global struggle a power called hegemon rise on the basis of initially an overwhelming military advantage, then economic comparative advantage in newly leading and geographically clustered industries which are spurred by innovative revolutions in production; such as mercantile revolution of Dutch, industrial revolution of Britain, and second industrial revolution of US. It is crucial in understanding hegemony that 'the geographic concentration of leading sectors is the motor that drives both cycles of world leadership and of hegemony.'¹²² Hence 'the most advanced and active sectors of the world economy are located in the world power's [hegemonic power's] domain and the world political leader is, at the same time, the world economic leader.' In this way 'a strong economic base is needed in order to carry out world leadership.'¹²³

In the world system theory, on the other hand, the concept of hegemony gains a more particular importance. As it known the theory challenges the notion of distinct and independent national economic development associated with modernization theory. Instead, there is not an untidy and independent national-based structure but a world system including many interrelated actors, in which national economic development is an integral

¹²¹ By demonstrating a cyclic approach to question of hegemony, Modelski divides his long cycles into four successive phases. Each cycle starts with "phase of global war" between world powers, the next phase is called the "phase of world power" in which a new global leader rise to perform its hegemony, the third phase is called "delegitimation phase" signs of decline of hegemon appear in this period, finally the forth and last phase of a cycle is called "deconcentration phase". Here again competition become fierce among great powers and a new global war reappears among them to catch hegemonic position.

For a detailed comparison of systemic theories and approaches to World System please See: Tayfur, Fatih, Sytemic Structural Approaches, World Sytem Analysis and the Study of Foreign Policy, METU Studies in Development, 27(3-4) 2000, pp.265-99.

¹²² Boswell, Terry, Hegemony and Bifurcation Points in World History, p.5.

¹²³ Tayfur, Fatih, Sytemic Structural Approaches, World Sytem Analysis and the Study of Foreign Policy, METU Studies in Development, 27(3-4) 2000, p.279.

part of the development of capitalism. In the world system theory, the historical capitalism is based on two main forces; firstly, an expanding division of labour and a network of trade and finance which gradually incorporates more and more territories and populations into the world system by establishing relationships of exchange and interdependency; secondly, a competition between and/or among the territorially-determined states. To Wallerstein;

‘hegemony in the interstate system refers to that situation in which the ongoing rivalry between the “so-called” great powers is so unbalanced that one power is truly *primus inter pares*, that is, one power can largely impose its rules and its wishes...in the economic, political, military, diplomatic, and even cultural arenas’.¹²⁴

In this sense ‘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.’¹²⁵ Thus, a hegemon ‘sets *universal* rules that apply to everyone equally, but which match its own interests. These *universal* rules and the international institutions that enforce them [actors] constitute a new world order.’¹²⁶

By paraphrasing Wallerstein’s discourses, and so of the world system theory Andrew Gamble makes a compact and concise explanation of hegemony;

A global economy [as a system] requires the supply of certain functions if it is to function satisfactorily. A global polity [regime] would be one means of providing these but it is not the only one...one of the states in the international state system is so dominant that it exercises hegemony over the other leading states

¹²⁴ Immanuel, Wallerstein, *The Three Instances of Hegemony in the History of the Capitalist World Economy*, Cambridge University Press, New York, 1984, p.38.

¹²⁵ Arrighi-Silver, *Chaos and Governance In the Modern World System*, p. 23.

¹²⁶ Bosswell Terry, *American World Empire of Declining Hegemony*, *Journal of World-Systems Research*, Vol. 10, No.2, Summer 2004p. 518.

and can either impose or get agreement to a system of international rights and norms. Such a condition of hegemony develops when one state has such economic supremacy that no other state or combination of states is able to challenge it effectively. The main dimensions of economic supremacy lie in production (technological lead), commerce (share of world trade), and finance (international credit and currency). If a state enjoys supremacy in all three areas it possesses the ability to exercise hegemony and to some extent to assume state functions for the whole of the world system as though it were the central authority.¹²⁷

In fact, a hegemonic power, to some extent, has all what are stated above. Therefore, in questing what hegemony is, it may be more proper to illuminate what a hegemonic structure is and how it works. Allegorically a snapshot taken from a hegemonic structure can be considered as a tree that has roots in soil, a trunk, both large and small branches, leafs and fruits. All parts of this tree are organically linked to each other and each of which represents an integral part of this biological systemic structure. This biological system, as a whole, is linked to a specific part of the land. Existence and durability of the structure depends heavily on harmonious working of each part with the others during performing its own function in this system—division of labour. Another crucial point for the sake of the whole of the structure is sustainability of getting water and minerals from soil, and proper distribution of those materials to the each part. Similarly, a hegemonic power performs its dominance in a geographically specified system in which each part of the system is organically linked to the others, and each of which takes over a function—division of labour.

¹²⁷ Andrew, Gamble, "Hegemony and Decline: Britain and the United States," in *Two Hegemonies: Britain 1846-1914 and the United States 1941-2001* edited by Patrick Karl O'Brien and Armand Clesse (Aldershot: Ashgate Publishing, Ltd., 2002). Available at: <http://www.mtholyoke.edu/acad/intrel/ipe/gamble.htm>

Since a system can survive through rules and regimes, hegemony also means a complex of rules, regimes, organizations, and institutions by which the hegemonic power can perform its *world-wide* unique superiority on the others by coercion, or consent. As a whole, “hegemony is a power relationship of great inequality, most particularly one not of unbalanced *capabilities* only, but of asymmetric *influence*, influence consciously intended, consciously exerted and consciously accepted.”¹²⁸

Although it is too hard to make a full and comprehensive definition of hegemony, there are some sound indicators derived from the question of what a hegemonic power has. The supremacy of a hegemonic power depends on some pillars which may be classified as primary and secondary. The primary pillars of hegemony consist of its politic, military and economic superiority. As Andre Gunter Frank makes abbreviation, as far as American Hegemony is considered those primary pillars are dollar, pentagon, and government.¹²⁹ While “hegemony is usually regarded as being more about political and military than economic power”¹³⁰ as Barry K. Gills points out, however by underrating economic motives toward accumulation, the hegemony in its modern meaning and hegemonic powers in modern world system can not be conceived properly. As a matter of fact ‘hegemony is a means to wealth, a means to accumulation and not merely or perhaps even primarily a means to “power” or to “order”’.¹³¹

¹²⁸ David Wilkinson, *Hêgemonía: Hegemony, Classical and Modern*, Journal of World system Research, Volume 14, Number 2, p.138.

¹²⁹ See Andre Gunter Frank, Paper Tiger in Washington. Fiery Dragon in the Pacific, *Historia Actual Online*, Number 5, 2004, pp. 93-102.

¹³⁰ Barry, K., Gills, Hegemonic transitions in the world System, in the *World System: Five Hundred Years of Five Thousand?* (Edited by Andre Gunter Frank and Barry K. Gills), Routledge, 1996, p115.

¹³¹ Barry, K., Gills, Andre, G., Frank, *World System Cycles, Crises, and Hegemonic Shifts, 1700 BC to 1700 AD*, , in the *World System: Five Hundred Years of Five Thousand?* (Edited by Andre Gunter Frank and Barry K. Gills), Routledge, 1996, p. 146.

Economic and politic superiorities which as stated previously lie in production, commerce and finance include an organizational arrangement of those variants in a regime with some mandatory institutions. Military superiority, on the other hand is not enough alone without economic and politic supremacy to perform hegemony, but it may be considered as an integral part of a hegemonic power as a means of deterrence against *others*. Consequently, 'in the period of global leadership [called hegemony], [leading] global power [namely hegemon] could be indexed by the ability of a nation state to deploy forces of global reach, principally naval and air.'¹³²

As for the secondary pillars of hegemony, they manifest themselves in ideological, cultural, sociological, technological, administrative, historical, religious, philosophical and even psychological ways. As Giddens argues, in relation to the post cold war period of the US hegemony, 'to many living outside Europe and North America, it looks uncomfortably like Westernization -or, perhaps, Americanization, since the US is now the sole superpower, with a dominant economic, cultural and military position in the global order.'¹³³ In sum, both pillars of hegemony are complementary and causally interrelated, but without primary pillars the secondary pillars can not provide an opportunity for becoming a hegemonic power. In fact secondary pillars may be corollaries of the primary pillars of hegemony, and they provide rather useful means in producing global consent.

As a matter of fact, in this study, the hegemony depending on systemic cycles of accumulation has demonstrates an evolutionary character in its particular lifetime. As we shall see in the Dutch, Britain and present American cases all hegemonic periods experienced their rise and fall periods in successive accumulation cycles each of which consists of

¹³² Modelski, George, Long Term Trends in World Politics, Journal of World Systems Research, XI, 2, December 2005, p. 198.

¹³³ Giddens, A., Runaway World: How Globalization is Reshaping Our Lives, New York, Routledge, 2003,p.15.

material and financial epochs respectively. Similarly, all the three material expansion periods were eventually terminated by overaccumulation crises after experiencing their particular apex through *ever increasing mass of commodities*, and then followed by financial expansion periods that indicate a second but the last ascend of the present hegemonic power through ever increased mass of money capital. These cyclic characters of hegemonies in the world capitalist system have showed us that a hegemonic power in the capitalist world history has experienced its own climax two times but into two different levels and forms. The first level is material expansion period in which the present hegemonic power experiences its global superiority in *productive form* in a newly created spatial fix. The second level, however, is financial expansion period in which the present hegemonic power more importantly (in fact imperatively because of overaccumulation crisis) deals with financial affairs rather than trade and production to become *banker* of the current system, or in other words to specialize in high finance in *speculative form*. To be well aware of the distinction between the productive and speculative form of a particular hegemonic power in its successive material and financial periods, it becomes clear to comprehend what a hegemonic pattern is in the evolutionary path of the historical capitalism.

CHAPTER III.

A BRIEF HISTORY OF THE THREE HEGEMONIES

As a successive cycling phenomenon hegemony in the modern world history has repeated itself three times, under the labels of Dutch, British and now declining US hegemonies. As mentioned previously, by building his theory of systemic cycles of accumulation on Braudel's observation that 'the maturity of every major development of the capitalist-world economy is heralded by a particular switch from trade in commodities to trade in money,'¹³⁴ Arrighi suggests that 'financial expansions [namely switch from trade in commodities to trade in money] are thus seen as announcing not just the maturity of a particular stage of development of the capitalist world economy, but also the beginning of a new stage.'¹³⁵ Thus, Arrighi conceptualizes four such systemic cycles in the capitalist world history. These are respectively the Genoese – Iberian cycle, the Dutch cycle, the British cycle, and finally US cycle. Since each of these cycles is firmly connected to a different both economic and political leading power, they have also reflected a very explanatory history of hegemonies in the world capitalist system.

As we have seen under the first title of this chapter is accumulation in cycles, the systemic cycles of accumulation refer to a full MCM process which consists of a material expansion epoch–MC followed by a financial expansion epoch–CM 'promoted and organized by the same agency or group of agencies.' In this context, although it had formed 'the agencies of the first systemic cycles of accumulation', and it had foreshadowed the 'key features of subsequent financial expansions', 'the trade expansion of the late thirteenth and early fourteenth centuries, and the ensuing financial

¹³⁴ Arrighi, *The Long Twentieth Century*, p. 109.

¹³⁵ Arrighi, *The Long Twentieth Century*, p.87.

expansion—of the late fourteenth and early fifteenth centuries— can not be said to constitute a systemic cycle of accumulation.’

However, both origin and formation of systemic cycles of accumulation can be fully understood, argues Arrighi, through a preliminary examination of the forces at work in this financial expansion of the late fourteenth and early fifteenth centuries of Italian city-states.¹³⁶ This period with its preceding trade expansion epoch, most importantly, for the first time demonstrated some systemic premises of the capitalist accumulation processes, which have been seen in the systemic cycles of the world capitalist history.

The individual system of this period mainly depended on ‘big four’ powers called Florence, Milan, Venice and Genoa. In these city-states which are controlled by bourgeoisies who sought to accumulate power by expanding their command over money capital, instead by expanding territorial domains; especially, Venice had demonstrated a remarkable tendency and skill to adopt a capitalist strategy of power in this early modern European period. Configuration of the system of these city-states not only included some nucleus of systemic cycle of accumulation, but also having origins of modern interstate system through its four features as follows:

Firstly, this city-states system constituted building stone of capitalist system of war and state making. As the most powerful state the Venice represents a clear prototype of capitalist states which have been increasingly adopted and become essential by the capitalist agents in the following centuries.

Secondly, the “balance of power” among these city-states had a crucial role ‘at three different levels in fostering the development of enclave of capitalist rule within the medieval system.’ At first level, ‘the balance of power between central authorities of the medieval system’ (pope and emperor) facilitated the ‘emergence of an organized capitalist enclave in northern Italy.

¹³⁶ Arrighi, *The Long Twentieth Century*, p. 88.

At second level, the balance of power among the Italian city-states 'was instrumental in preserving their mutual separateness and autonomy. And finally at third level the balance of power between the 'emerging dynastic states of Western Europe' instrumental in preventing the logic of territorialism from nipping in the bud the rise of a capitalist logic within the European system of rule'¹³⁷

The balance of power is so important that it the development of capitalism as mode of rule is strictly depends of it. Actually, it can be interpreted as a mechanism by means of which capitalist states can, separately of jointly, reduce protection costs both absolutely and relative to their competitors and rivals.'¹³⁸ In addition to reducing of protection costs, it, more importantly, allows to capitalist activities to get considerable resources and areas to develop a capitalist system by pursuing their goal and objectives toward accumulation.

Thirdly, 'by developing wage-labor relation in what Frederic Lane has aptly called the "protection-producing industry" that is, war-making and state-making, the Italian city-states managed to transform at least part of their protection costs into revenues, and thus make wars pay for themselves.'¹³⁹

'Enough money circulated in the richer Italian towns to make it possible for citizens to tax themselves and use the proceeds to buy the services of armed strangers. Then, simply by spending their pay, the hired soldiers put these moneys back in circulation. Thereby, they intensified the market exchange that allowed such

¹³⁷ Arrighi, *The Long Twentieth Century*, pp. 37-38.

¹³⁸ Arrighi, *The Long Twentieth Century*, p.38.

¹³⁹ Arrighi, *The Long Twentieth Century*, p. 38.

towns to commercialize armed violence in the first place. The emergent system thus tended to become self-sustaining.¹⁴⁰

As Arrighi points out, this situation indicates a kind of small-scale “military Keynesianism” in which ‘military expenditures boost the incomes of the citizens of the state that has made the expenditures, thereby increasing tax revenues and the capacity to finance new rounds of military expenditures.’ But as seen in all ‘subsequent kinds of military Keynesianism, this process of “self-expansion” of military expenditures’ was also deteriorated by increasing inflationist costs and ‘by other redistributive effects of ever-increasing military expenditures which drove down the willingness of capitalist strata to tax themselves or be taxed for the purpose.’¹⁴¹

Fourthly and finally, dense and extensive networks of residential diplomacy were established in this multi-centered city-states’ period. Through such an advances network of diplomacy the capitalist rulers were able to have information about ambitions and capabilities of the others.

As a whole;

‘the accumulation of capital from long-distance trade and high finance, the management of the balance of power, the commercialization of war, and the development of residential diplomacy...for a century or more, promoted an extraordinary concentration of wealth and power in...northern Italian city-states. By about 1420 the leading Italian city-states not only functioned as great powers in European politics, but had [remarkable] revenues that compared very favorably with the revenues of the most successful dynastic states of western and northwestern Europe.’¹⁴²

¹⁴⁰ William, McNeil, *The Pursuit of Power: Technology, Armed Force, and Society* since A.D. 1000, Chicago: University of Chicago Press, 1984, p.74. Quoted by Arrighi, *The Long Twentieth Century*, p. 38.

¹⁴¹ Arrighi, *The Long Twentieth Century*, p.38.

¹⁴² Arrighi, *The Long Twentieth Century*, p.39.

To come back to our subject, the most important feature of the period of financial expansion of late fourteenth and early fifteenth centuries of Italian city-states 'was a sudden intensification of inter-capitalist competition'. As stated previously and as we shall see, such an increasing fierce competition is seen in all financial expansion periods of systemic cycles of accumulation which indicate 'not just the maturity of a particular stage of development of the capitalist world economy, but also the beginning of a new stage.' During the preceding trade expansion (namely material expansion epoch), however, relations among accumulation centers—that is city-states— had depended on cooperation. Cooperation had been principally based on a division of labor among commercial-industrial capitalist activities of these city-states. The division of labor in this period was so peculiar that each of the "big four" performed its own function very nearly alone in its market niche in the trading system. While Milan and Florence both engaged in manufacturing and in overland trade with northwestern Europe, Milan specialized in metal trades, Florence, on the other hand, in textile trades. Similarly, while Venice and Genoa both engaged in maritime trade with the east, Venice specialized in deals with the southern Asian circuit based on the spice trade; on the other hand Genoa specialized in the Central Asian circuit based on the silk trade. Thanks to this commercial-industrial specialization of the Italian states 'in interrelated but spatially or functionally distinct circuits of trade greatly expanded their collective knowledge of the world economy in which they operated and thereby reduced the risks involved in trading in a fundamentally insecure or even hostile environment'.¹⁴³

To summarize, the pan-Eurasian trade expansion of the thirteenth and early fourteenth centuries which brought to power and wealth to the northern Italian politically autonomous city-states, was based on growth of trade and accumulation, and on a division of labor by which costs and risks of capitalist activities performed by the centers were reduced. As long as the line of the

¹⁴³ Arrighi, *The Long Twentieth Century* , pp. 88-89.

trade expansion was going on to rise in accordance with increasing profitability of capitalistic activities, the competition between these centers and/or with newcomers was very fair and stimulative for all capitalists.

However, the main problem results from contradictory logic of capital accumulation itself; and throughout the world capitalist history the pendulum of the accumulation have swung between fair competition of material expansion epoch including division of labor and cooperation with *others*, and “cut-throat” competition of financial expansion epoch including wars or warlike measures against the *others*.

Therefore, the outcome of this primitive cycle of accumulation at the beginning of the world capitalist history had not been so different than following more mature accumulation experiences. Thus, fair competition of trade expansion epoch of thirteenth and early fourteenth centuries was replaced with “cut-throat” competition of Florentine-led financial expansion epoch of Italian city-states, particularly wars between Venice and Genoa. In this regard;

‘as soon as a major and lasting disproportion arose between the mass of capital that sought investment in trade on the one side, and what could be so invested without precipitating a drastic reduction in returns to capital on the other, competition between the centers turned into ‘a fight among hostile brothers.’¹⁴⁴

There are more and more points on “big four” and their inheritance to following centuries, which should be investigated in a detailed manner, but as appreciated we have neither time nor space to include such a comprehensive work in this study. In sum, at this point we need to conclude our discussion on this era by emphasizing again on that this era has represented the trigger nucleus of the big bang of the capitalism’s *universe*

¹⁴⁴ Arrighi, The Long Twentieth Century, p.90.

that has been in an expansionary trajectory for more than five hundred years. As stressed by Arrighi, the Florentine-led financial expansion of late fourteenth century of this period that took off at the end of the trade expansion of the late thirteenth and early fourteenth centuries need to be taken as “zero point” in the development of capitalism as world system¹⁴⁵. Consequently, importance of this period with increasing “cut-throat” competition and long-duration wars among agents of present era¹⁴⁶ results from that this nucleus “zero point” period, on one hand, had formed ‘the agencies of the first systemic cycles of accumulation’; on the other hand, foreshadowed the ‘key features of subsequent financial expansions’ of world capitalist history.

3.1 Genoese Cycle: The First Systemic Cycle of Accumulation without Hegemony

As we have seen, Braudel’s characterization of “financial expansion” indicates a particular maturity of capitalist development. It is supplemented by Arrighi to Braudel’s observation that financial expansion is not only “*sign of autumn*” of a matured capitalist development, but also herald for a new capitalist development period. In investigating the withdrawal of Dutch from commerce to ‘become bankers of Europe’ around 1740, Braudel asserts that this withdrawal was not the first; on the contrary, it has been a recurrent world-systemic tendency. The same tendency, as we have seen, had already been in fifteenth century Italy. Similarly it had appeared again in the case of withdrawal of Genoese business diaspora from commerce around

¹⁴⁵ Arrighi, *The Long Twentieth Century*, p. 87.

¹⁴⁶ These “cut-throat” competitions and wars in this financial expansion period had had two dimensions: on one side intra-city-state conflicts which lasted about hundred years from the middle of the fourteenth century to the Peace of Lodi in 1454 by which the Northern Italian balance of power was institutionalized, and which is named by Braudel as ‘Italian Hundred Years War’. On the other side, power struggle among and within other territorialist organizations had intensified as seen in the case of Hundred Years War between England and France from 1337 to 1453. See Also: Arrighi, *The Long Twentieth Century*, pp. 91-92, 98, 127, 181, 216, 227-8.

1560 'to call the tune of European payments and transactions through their handling of capital and credit.' To Braudel, it was "age of Genoese"-not quite a hundred years but seventy, from 1557 to 1627, of a rule that was so discreet and sophisticated that historians for a long time failed to notice it.' In the course of time the same tendency came into view in British case during and after the Great Depression of 1873-96, when the excessive money capital of 'the fantastic venture of the industrial revolution' embraced the *global* markets.¹⁴⁷ Finally and unavoidably, after a remarkable postwar period the US capital has experienced a similar course since 1970s. Here, each of these periods called systemic cycles shall be examined respectively by starting with the first Genoese Cycle.

By regarding it as the first systemic cycle of accumulation in the world capitalist system, Arrighi does not refer to 'Republic of Genoa -a city-state which throughout the cycle led a politically precarious existence and contained very little power'. In fact he refers to 'the transcontinental commercial and financial networks that enabled the Genoese capitalist class, organized in a cosmopolitan diaspora.'¹⁴⁸ We have known Genoese finance capitalism originated from systemic environment of latter half of the fourteenth century as the finance capitalism of other Italian city-states did. Parallel to end of the trade expansion of thirteenth and early fourteenth centuries and following financial expansion period in latter half of the fourteenth century the cut-through competition increased and power struggle escalated between centers. As a result of the overaccumulation which produced financialization process, 'surplus capital that no longer found profitable investment in trade was held liquid and used to finance the growing public debts of the city-states, whose assets and future revenues

¹⁴⁷ Braudel, *Civilization and Capitalism*, vol. III, pp. 157, 164, 242-3, 246. See also Arrighi –Silver , *Capitalism and World Disorder*, p.258-262, Arrighi, *The Long Twentieth Century*, pp.124-25.

¹⁴⁸ Arrighi, *Hegemony Unraveling II*, p. 92.

were thereby alienated more thoroughly than ever to their respective capitalist classes.¹⁴⁹

One of which was Genoa who had to control her financial flows for the sake of her vital interests; and in 1407 to cope with public finances through support of private creditors she established Casa di San Giorgio, which 'was not to be paralleled in effectiveness or sophistication until the Bank of England was established almost three centuries later.'¹⁵⁰ It was also seen in the same century Genoa became a developed capitalist city-state

'in all its forms, with its precise and modern techniques; where capital came to control every economic activity; where banks came to occupy a position of great importance. Hence, a city that saw the rapid formation of a class of rich and powerful businessmen involved simultaneously or successively in banking, in commerce, and in industry; in short, a class of big capitalists in the most modern sense of the word.'¹⁵¹

Thus, by adopting a more advanced capitalistic path, Genoese capitalism in the fifteenth century differed from the all other three Italian city-states. While 'Milanese, Venetian and Florentine capitalism were all developing in the direction of state-making and of increasingly "rigid" strategies and structures of capital accumulation; Genoese capitalism, on the contrary, was 'moving in the direction of market-making and of increasingly "flexible" strategies and structures of accumulation.'¹⁵²

¹⁴⁹ Arrighi, *The Long Twentieth Century*, p.109.

¹⁵⁰ Arrighi, *The Long Twentieth Century*, p. 110.

¹⁵¹ Jacques, Heers, *Genes au XVe Siecle*, Paris: SEVPEN, 1961, p.610. Quoted by Arrighi, *The Long Twentieth Century*, p. 110.

¹⁵² Here, Arrighi investigates roots of this Genoese's exception from its all other three peers. He classified these roots under the subtitles of local and systemic circumstances. Locally, Arrighi suggests, roots of this exceptionalism result from 'aristocratic origins of Genoese capitalism and from precociousness with which the Genoese city-state had annexed the surrounding countryside.' In addition to these local advantages, 'developments in Genoa were radically shaped by the wider Italian, European, Eurasian systemic contexts, which were only in small part the making of Genoa.

This capitalistic direction of Genoese capitalism was nurtured from its position in Eurasian trading system in late thirteenth and early fourteenth century. By using its domain position in the system Genoese capitalism made remarkable fortunes which were 'built primarily on the competitiveness of the Central Asian trade route to China and on the success with which Genoese enterprise managed to establish a quasi-monopolistic control over the Black Sea "terminal" of this route.' However this predominance of Genoa crucially depended upon 'Mongol empire ensured access to and security of the Central Asian route', and upon military superiority of Genoese power in Black Sea region. As long as these interrelated circumstances were retained 'Genoese trade prospered and Genoese enterprises grew in scale, scope, and number.' Unfortunately Genoa experienced both nightmares one by one; 'the decline of Mongol power made the Central Asian trade route less competitive and secure, and the rise of Ottoman power in Asia Minor undermined and then destroyed Genoese supremacy in the Black Sea region.' Consequently, in the latter half of the fourteenth century and in the fifteenth century the clouds on the Genoa were rather gloomy, because 'the prosperity of Genoese trade waned', influential position of the City in the Mediterranean world economy and in the Italian city-states was decreased, and as a corollary 'the inflated Genoese military-commercial apparatus suddenly faced the imperative of fundamental restructuring.'¹⁵³

Thus, as parallel to severe diminishing of trade opportunities for investing into the networks of long-distance trade, Genoese landed aristocracy with their winning profits of trade turned from commerce towards the territorial investments; in land, castles, and armies. Genoese bourgeoisie, on the other hand, had never demonstrated a self-sufficient being in organizing a

The most important of these systemic circumstances was no doubt the disintegration of the Eurasian trading system within which Genoa's commercial fortunes of the late thirteenth and early fourteenth centuries had been made.' See Arrighi, *The Long Twentieth Century* ,p.110-16.

¹⁵³ Arrighi, *The Long Twentieth Century* , pp.114-15.

protection network to maintain its long-distance traffics and so its long-term interests, as Venetian bourgeoisie had done. In the trade expansion period, protection of long distance traffics was provided by Genoese landed aristocracy that had turned merchants. However, this protection network was crucially depended upon long-distance trade network; as soon as dark clouds appeared on this path, by withdrawing from commerce landed aristocracy returned to its *heartland*. So, 'the Genoese bourgeoisie was left unprotected in an increasingly hostile world' of wolfs. Under such unpleasant conditions there was no way for Genoese capital and commercial entrepreneurs except for redirecting their investments from more profitable foreign areas to lesser attractive domestic areas including land-ownership and state-making activities. This domestic redirection of Genoese regime of accumulation best characterized the fifteenth century of Genoa- 'political turbulence, overabundance of means of payments, and the creation of new monetary instruments and techniques. However, these tendencies could not and did not resolve the crisis of overaccumulation'. Although it would 'become a key ingredient of Genoese capitalist expansion', money trade 'did very little to resolve the crises of Genoese capitalism for most of the fifteenth century.' In the course of time, however, usually as a reaction to the crisis 'Genoese networks of trade and accumulation were being restructured radically and in a way that, over time, turned Genoese merchant bankers into the most powerful capitalist class of sixteenth-century Europe.'¹⁵⁴

As the former military-commercial empire of Genoese had disintegrated and the Genoese landed aristocracy withdrew from commerce to land, the bourgeois element of Genoese merchant classes remained in a serious dilemma that on one side they had had a great capitalistic experience and resources including a huge reserves of money, information, business know-how, and connection in the *global* network; on the other side it was not self-sufficient to protect itself and its commercial traffics in escalating competitive

¹⁵⁴ Arrighi, The Long Twentieth Century, p.116.

and hostile world-trade conditions. In this context, the Iberian Peninsula in which Genoese capital was gradually embedded by suppressing the Catalan capital for most of the fifteenth century was seen a good solution to this dilemma for three main reasons:

Firstly, Iberian Peninsula and the nearby Maghreb were the regions of Mediterranean 'that had been thoroughly monopolized by Genoese enterprise. Secondly, the Iberian peninsula for the Genoese business 'was not just the natural stronghold to which to retreat, but also the natural outpost from which to advance in search of the supplies of which it was being deprived.' As response to Venetian control over German silver and Asian spices, Genoese business, at least, had to take imperative measures to strengthen its control over the African gold supplied via Maghreb ports by Saharan caravan trade; and possibly to find a new Atlantic trade route to replace the lost central Asian route. Thirdly, the Iberian Peninsula, for the Genoese capitalist class, was 'the most promising place to find what it needed most: effective and enterprising protection-producing partners who could be enticed to assume the role formerly played by the Genoese landed aristocracy.' Particularly the Portugal and Spain rulers were seemed volunteer as well as proper to fulfill this gap for Genoese capital 'thanks to the combination of religious fanaticism –in the name of a new crusade wave- and political entrepreneurship.'¹⁵⁵

In this respect, thanks to this Genoese-Iberian association, the required sphere was produced for the material expansion epoch of the first (Genoese) systemic cycle of accumulation in the capitalist world history. It was 'promoted and organized by a dichotomous agency' which was composed of territorialist Iberian aristocracy- which 'specialized in the provision of protection and in the pursuit of power- and Genoese capitalist class- which 'specialized in the buying and selling of commodities and in the

¹⁵⁵ Arrighi, *The Long Twentieth Century*, p. 118.

pursuit of profit'. Both of these components complemented and nurtured one another. They demonstrated a good example of a well functioning cooperation in capitalist history by which on the one side 'the pursuit of power of the territorialist component created profitable trade opportunities for the capitalist component', and on the other side, 'the pursuit of profit of the capitalist component strengthened the effectiveness and efficiency of the protection-producing apparatus of the territorialist component'. In other words, in the fifteenth century Iberian territorialist rulers and Genoese capitalist merchant bankers could manage to create such a relationship that both parties mutually 'could provide the other what it most needed,' and we explicitly know 'what the Genoese capitalist class most needed in the fifteenth century was an enlargement of its commercial space sufficient to accommodate its huge surplus of capital and to keep alive its far-flung business network.' Consequently, as such a strong association formed with Iberian territorialist rulers who were guided to open up new commercial spaces, and 'the so-called Great Discoveries consolidated it', Genoese capitalism caught an opportunity to perform its particular spatial fix by redirecting its surplus capital to the new spaces. In this regard, it 'was finally delivered from its long crisis and propelled towards its moment of greatest expansion.'¹⁵⁶

When the sixteenth century was displayed on the long-historical calendar, Genoese had 'settlements in North Africa, Seville, Lisbon, Bruges, and finally Antwerp'. It was to be granted to a Genoese, Cristopher Columbus, rather than to Castile or another, to gain honor of discovering of America. Then, no wonder 'until 1568, the lengthy voyages between Spain and America were financed by the Genoese merchants of Seville.' As for the year of 1557, it indicated a turning point for Genoese capitalism. In that year 'the huge contract they had been eyeing, that of making loans to the

¹⁵⁶ Arrighi, *The Long Twentieth Century*, pp. 120-22.

government of Philip II, was offered to them.’ Therefore, Genoese capital ‘seized the opportunity, thus inaugurating a new phase in its history.’

Actually, the first borrowing from Genoese had been made by Charles V for the first time in 1528 when the system ‘still dependent on the German merchant-bankers, especially the Fuggers¹⁵⁷ who had hitherto [1557] provided the finances his policy required’. So, the Philip’s borrowing of money from Genoese had not been the first, but in 1557 the ongoing crisis brought Spanish kingdom into bankruptcy which ended the reign of the German bankers particularly of the Fuggers, and the Genoese capital, as the most influential financial power of the period, ‘naturally stepped into the breach with alacrity and without difficulty’ to fulfill this gap, ‘since they had already begun to participate in the complicated game of international finance.’¹⁵⁸

In the midst of the crisis, Genoese merchant bankers followed a particular path by abandoning trade to become the bankers of the government of Imperial Spain. This switch from trade to high finance indicated beginning of, Braudel following Richard Ehrenberg and Felipe Ruiz Martin calls, “age of Genoese” (1557-1627). During these seventy years, Genoese merchant-bankers superimposed a rule over the European finances which was ‘so discreet and sophisticated that historians for along time failed to notice it’; it was ‘comparable with the Bank for International Settlements in Basle’ of twentieth century. It was ‘exercised through the organization, control, and management of an invisible link between the more than ever overabundant

¹⁵⁷ Family of German financiers who exerted great economic and political influence in the 15th and 16th centuries. Founded by Johannes (1348-1409), the family business was greatly expanded by his son Jakob (died 1469).

¹⁵⁸ Braudel, *Civilization and Capitalism*, vol. III, pp. 164-65.

supply of money capital of northern Italy and the permanent financial straits of Imperial Spain'¹⁵⁹.

The seventy years financial dominance of the Genoese that managed through so-called a systemic link between Iberian power and Italian money was unable to prevent some series of crises- in 1575, 1596, 1607, 1627, and 1647, 'all of which had Spanish origins, and were so many serious blows, shaking the foundations of the city'. However unlike the Fuggers whose business was devastated by their connection with Imperial Spain, 'they [Genoese] were not ruined by these crises since 'they always managed to shift losses and disruptions onto clients and competitors'. In fact, 'Genoese businessman was remarkable for his adaptability, versatility, weightlessness, and total 'absence of inertia'; time after time Genoa could change its path by 'accepting on each occasion the need for another metamorphosis'. When another Spanish bankruptcy of 1627 ended the Genoese seventy years rule in European finances, in fact it was not mean there was no a custom in the financial world after 1627; but it was crucial for the Genoese capital that 'Spanish government no longer offered the same opportunities as in the past'. This situation, however, directed the Genoese capitalists to use their dexterity of flexibility again, and they 'sought and found other clients: cities, princes, states, and individual entrepreneurs or private citizens.' Although Genoese rule gradually withered away and eventually waned, its fruits had remained intact for centuries, and 'more than two centuries later found a new investment in the political and economic unification of Italy, of which Genoese finance capital was one of the main sponsors and beneficiaries.'¹⁶⁰

¹⁵⁹ Braudel, *Civilization and Capitalism*, vol. III, pp.157-164. See also: Arrighi, *The Long Twentieth Century* pp. 124-25.

¹⁶⁰ Braudel, *Civilization and Capitalism*, vol. III, pp. 162, 169-73. See Also: Arrighi, *The Long Twentieth Century* pp.124-125.

Unlike the previous Florentine-led financial expansion of late fourteenth and early fifteenth centuries which could be a part of a primitive cycle not of a developed and systemic, the Genoese-led financial expansion of the sixteenth century, says Arrighi, 'constituted the high-point of pattern of capital accumulation that was both systemic in scope and homogeneous in agency and structure.' This pattern could fully reflect characteristics of what a systemic cycle should have. It had a 'major material expansion of European world-economy, through the establishment of new trade routes and the incorporation of new areas of commercial exploitation'; then this fantastic epoch was followed by a comparably fantastic financial expansion epoch that 'tightened the dominance of capital over the enlarged-world economy.' Furthermore, it was crucial in the capitalist world history that 'a clearly identifiable capitalist class (the Genoese) encouraged, monitored, and benefited from both expansions in virtue of a structure of capital accumulation which for the most part had already come into existence when the material expansion began.'¹⁶¹

This pattern clearly gives us a full composition of what we call "systemic cycle of accumulation". In capitalist world history, it was established and managed for the first time by Genoese capitalist class in the sixteenth century; then it has been done three more times again under the successive leadership and dominance of Dutch, Britain, and US capitalist classes. As stated in all occasion, in all this cycles, as a period of intensification of inter-capitalist competition 'the financial expansions have always been the initial and concluding moments of those systemic cycles'. They have meant *sign of autumn* for the present cycle, in contrast *sign of spring* for the subsequent cycle. To illuminate in words of Arrighi, 'just as the financial expansion of the fourteenth and early fifteenth centuries had been the cradle of the Genoese cycle, and as we shall see the financial expansion of the late

¹⁶¹ Arrighi, The Long Twentieth Century, p.126.

sixteenth and early seventeenth centuries was the cradle of the Dutch cycle¹⁶².

3.2 The Second Systemic Cycle of Accumulation:

Dutch Hegemony

Despite the fact that all other three subsequent systemic cycles have been performed by their respective *worldwide* hegemonic powers – Dutch, Britain, and US–,the Genoese–Iberian cycle as the first accumulation cycle of capitalist world history, had been experienced without hegemony; because to make a proper description of a power as hegemon in the world-capitalist history, it was to be needed to wait absolute and permanent ‘predominance of capitalist accumulation in the European-centered interstate system.’

Once capitalism had become the predominant strategy for the accumulation of wealth and power it partially supplanted the geopolitical logic of institutionalized political coercion as a means to accumulation. Powerful capitalist core states emerged that effectively prevent semiperipheral marcher states from conquering whole core regions to erect a “universal state.” The first capitalist-nation state to successfully do this was the Dutch republic of the seventeenth century.¹⁶³

As we have argued in all occasions that one of the main characteristics of the financial expansions is their clear association with the condition of “cut-throat” competition; and we have seen the same phenomenon in the Florentine-led financial expansion of the late fourteenth and early fifteenth centuries which was experienced with under harsh conditions including “Italian” Hundred Years Wars from the middle of the fourteenth century to the Peace of Lodi in 1454 and “Anglo-French” Hundred Years War from

¹⁶² Arrighi, *The Long Twentieth Century*, p.126.

¹⁶³ Anderson, N., E., Dunn, Chase, Christopher, *the rise and fall of great powers, in the Historical evolution of World System*, p. 14.

1337 to 1453. Correspondingly, the Genoese-led financial expansion of late sixteenth and early seventeenth centuries provides us a similar portrait with an intensified path of inter-capitalist and inter-territorialist struggles.

When the sixteenth century appeared, its prospect was different than that of fourteenth and fifteenth centuries. Capital accumulation processes no longer had to turn around the Italian city-states. Antwerp, Seville, and Lyons have become centers for present processes of capital accumulation. These centers were;

neither autonomous governmental organizations nor autonomous business organizations. They were simple market places... [which] subjected politically to the authority of Imperial Spain (Antwerp and Seville) and France (Lyons), and economically to the trans-statal activities of foreign business organizations...which consisted of expatriate capitalist groups which identified themselves and recognized as "nations" in relation to one another...These trans-statal "nations" exercised a truly dominant influence over the commercial and monetary system of sixteenth-century Europe.¹⁶⁴

As Arrighi suggests the means for getting profit was not only buying and selling of commodities, exchanging currencies for one another through bills of exchange was also, and even more profitable means in these accumulation processes. Such a capitalistic system including bills of exchange enabled merchant bankers that organized in "nations" to exercise their profit-making activities that were not limited by spatial and temporal dynamics as well. Namely, bankers have managed to adjust 'differences in the values of currencies from place to place at any given time and from one time to another in the same place.' One of the reasons why the money-changing activities of the "nations" were highly profitable is, Arrighi emphasizes, that 'this service was extremely useful to a vast clientele, and yet its provision involved little risk and trouble for the merchant bankers.'

¹⁶⁴ Arrighi, *The Long Twentieth Century*, pp.128-29.

Briefly, 'what would have been a costly and risky venture for the "nation's" clients was a costless and risk-free venture for the "nation's" members, and this difference translated into large and steady profits.'

Size and steadiness of this profit-making mechanism of merchant bankers did not only 'depend on extent and degree of cooperation realized within each "nation" alone; it depended also on the degree to which the most important "nations" cooperated with one another in coordinating their operations and in complementing each other's spatial or functional specialization.'¹⁶⁵

This European monetary and commercial system had lasted up to the crisis of 1557-1662 which provided emergence of "age of Genoese" (1557-1627) as we have seen. Until the outbreak of this crisis, the main conductors in organizing and management of the system were Florentine "nation" which was centered in Lyons as a result of the 'political troubles of Florence produced a constant stream of exiles who settled in France particularly in Lyon' in the sixteenth century; and the Genoese "nation" that having a rapidly increasing importance with its expansion of Iberian trade with Asia and the Americas. The other four nations – German, English, Milanese, Lucchese¹⁶⁶- in the division of labour played a more peripheral but important role for the sake of the whole European commercial and monetary system: German and English in Antwerp, the Milanese in Lyons, and the Lucchese first in Antwerp then in Lyons. It is an interesting point that neither Venice nor Holland – the greatest capitalist powers of the fifteenth and seventeenth centuries respectively- were represented in this cosmopolitan ensemble of capitalist "nations".¹⁶⁷

¹⁶⁵ Ibid.

¹⁶⁶ A city of Northwest Italy West of Florence. On the site of an ancient Ligurian settlement and a Roman colony, it became a free commune in the 12th century and was later an independent republic.

¹⁶⁷ Arrighi, *The Long Twentieth Century*, 130.

Because of the division of labour, the relationships between players of this 'cosmopolitan ensemble' were basically cooperative for most of the first half of the sixteenth century. As we have seen in the Italian 'Big Four's division of labour in the trade expansion of the thirteenth and early fourteenth centuries, correspondingly in this period each "nation" held a particular niche in sixteenth century's division of labour: 'textiles for English; alum, silver, and copper for the German; metal products for the Milanese; staples of various kind for the Lucchese.' This division of labour could not only be defined by merchandise of this period, but also by 'a predominant relationship of political exchange with one of the two most powerful territorialist organizations of the European world-economy (with France for the Florentine; and Spain for the Genoese).'¹⁶⁸

There were three main reasons on which "nations" cooperated with one another. The first reason was to minimize 'the actual transport of currencies that the "nations" had to undertake', because 'the largest possible number of promises of payment would offset one another directly or indirectly.' The second reason was to pool 'a better knowledge of conditions', because this knowledge has directly affected trends and fluctuations in exchange rates, and such a knowledge pool was more beneficial and efficient than the knowledge produced by a single "nation". The final reason for the cooperative approaches of "nations" was to create some collaboration 'in profitable and financial deals which would have been too big or risky for the members of a single "nation" to undertake but not for a "multinational" joint venture.'¹⁶⁹

Since the cooperation between capitalist players pursuing their goals for the benefit of capital accumulation itself looks like a show which is performed by

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

a dancer group on an icy floor; each dancer should keep up with the others; otherwise fall, fault, slowing down, speeding up or unbalanced act of one damages the harmony, and unavoidably harms whole of the choreography. As long as the harmony is preserved, the choreography would be exercised step by step by the dancers all together and individually as well. Similarly, as long as these three reasons serviced to the needs and interests of the “nations” that were dancers on the icy floor of the capitalist world history, the capitalistic harmony called division of labour gathered those cooperative “nations” ‘in specific places at specific times,’ thus create and keep alive central marketplaces like Antwerp and Lyons.’ However, as soon as these three reasons lost their attractiveness for one or more core “nations”, the capitalistic harmony was damaged, and the cooperation was replaced by competition. As a result ‘the centrality of cosmopolitan marketplaces like Antwerp and Lyons was progressively undermined and eventually destroyed.’¹⁷⁰

Despite the fact that some early signs of the replacement of cooperation with competition had been seen before the crisis of 1557-62; such as in 1530 ‘crowding out of German by American silver supplies destroyed the commercial foundations of the German “nation” and strengthened those of the Genoese “nation”, as another example ‘in the 1530s Genoese began to hold their own fairs in competition with the Lyons fairs, which were controlled by the Florentine “nation”¹⁷¹; the attitudes of core “nations” were basically cooperative up to the early 1550s.

The crisis of 1557-62 was the breaking point of the cooperation in relationships between “nations”. As we have mentioned, because of this crises German capital, particularly Fuggers, was crowded out of high finance

¹⁷⁰ Ibid.

¹⁷¹ Arrighi, The Long Twentieth Century, 130-31.

by the Genoese capital. Then the Genoese capital by signing a 'huge contract' on loans to the Spanish government of Philip II seized the opportunity to initiate "age of Genoese" from 1557 to 1627 to exercise its own financial expansion epoch in capitalist world history. Due to contracts with Spanish government, Genoese capital captured the opportunity of 'almost complete control over the supply of American silver in Seville in exchange for gold and other "good money" delivered in Antwerp, which was quickly becoming the main center of operation of the Spanish Imperial army.' This new situation brought the Genoese capital to leave cooperation with Florentine "nation", and then 'began making aggressive use of the supply of American silver to divert Italian liquidity (gold and bills of exchange) from the Lyons fairs to its own "Bisenzone" fairs.'

¹⁷²

Thus Genoese capital has gradually practiced its financial predominance against other "nations" and marketplaces, such as when Bisenzone fairs had been settled at Piacenza in the Duchy Parma in 1579, Genoese managed to create a 'tightly controlled and highly profitable triangle by which Genoese pumped American silver from Seville to Northern Italy, where they exchange it for gold and bills of exchange, which they delivered to the Spanish government in Antwerp.'

¹⁷³ In a decade, Lyons that had been one of the central money market was left out of the *global* financial system by Genoese controlled-triangle; as for the Antwerp, though it was a corner of this triangle, its position in the system as a central commodity and money market had been vanished much earlier. Germans had already been crowded out of the system by the Genoese-Iberian collaboration, and such collaboration alienated the English who withdrew into her shell in the late 1560s to establish her independency both in trade and in finance.

¹⁷² Arrighi, *The Long Twentieth Century*, 131.

¹⁷³ *Ibid.*

Consequently, establishment of Genoese triangle by consolidation of the system of Piacenza fairs clearly indicated termination of the system of cooperative “nations” which had dominated the European world-economy throughout the first half of the sixteenth century. This was victory of the Genoese in high finance, but also beginning of a period including a much longer struggle called war of Dutch independence.

This was the war of Dutch independence, in which the Genoese let their Spanish partners do the actual fighting, while they profited behind the scenes by transforming silver delivered in Seville into gold or other “good money” delivered in Antwerp near the theater of operations.

As far as this role of the Dutch war is concerned in the context of a hegemonic structure in a financial expansion period, ‘without this war there probably would have been no “age of the Genoese”. But it was this same war that eventually dislodged the Genoese from the commanding heights of the capitalist world economy.’¹⁷⁴

In a chorological view, the historical turning point for Amsterdam was 1566 when Spanish troops marched to Netherlands to occupy and economically to enforce taxation, but assault was backfired. Since then Dutch rebels took to the seas and gotten great capacities ‘not just in tax evasion, but in imposing on the finances of Imperial Spain a kind of “inverted” fiscal squeeze through piracy and privateering.’ In the following about eighty years, that is up to proclamation of the end of Thirty Years War by establishment of Peace of Westphalia in 1648, Imperial Spain sat at the descending side of the seesaw by which her ‘finances were subjected to a

¹⁷⁴ Arrighi, *The Long Twentieth Century*, 132.

major and growing drain'¹⁷⁵, the Dutch rebels, on the other hand, sat at of rising side by which they have gradually strengthened their position in the capitalist world history. As a corollary, as the *hegemonic* Imperial center weakened, wars, conflicts and rebellions unavoidably proliferated up to the foundation of the system of Peace of Westphalia by which the European balance of power was institutionalized.

During these struggles the main source of Dutch wealth and power through which she conducted the war in Europe, was control over supplies of grain and naval stores from the Baltic.

The more the Dutch succeeded in holding in check Iberian power and in drawing other states into the conflict, the more they profited from control over trade with the Baltic.' Supplemented by the inverted fiscal squeeze imposed on Spain, these profits were the primary and original source of the embarrassment of riches which characterized Dutch capitalism from the very start.¹⁷⁶

In this context, the Amsterdam's fortunes was built on the foundation of Baltic trade which on a large scale nurtured from a growing disequilibrium between demand and supply of grain and naval stores in European economy for most of the sixteenth century and first half of the seventeenth century. By tightly controlling supply of Baltic trade, Dutch managed to become one of the most important market niches of the European *world-economy*, and as a result they got a 'large and steady stream of money surpluses which they further augmented by imposing an inverted fiscal squeeze on Imperial Spain.'¹⁷⁷

¹⁷⁵ Ibid.

¹⁷⁶ Ibid.

¹⁷⁷ Arrighi, The Long Twentieth Century, 134.

Thanks to Baltic trade Dutch merchants having some surplus capital - 'capital that could not be invested profitably in the activities out of which it stemmed'¹⁷⁸ - as its Italian predecessors did in the late fourteenth and fifteenth centuries. There were three resemblances between these capitalistic powers for utilizing their surplus capital. First, both invested surplus capital of capitalistic trading activities in land and in development of commercial agriculture, but in different periods in their developmental processes. As we have seen capitalist class of Italian city-states sought the ways of getting profits by acquiring 'a rural space large enough to allow sizeable investments in land and commercial agriculture only after the end of their mercantile expansion.'¹⁷⁹ Fundamentally different than of the Italian city-states, the Dutch merchants turned into a rentier class by acquiring 'such a space in the very process of constituting themselves into a sovereign state.' Thus, the Dutch merchant's investment in land and land-bearing assets was not used as a solution to surplus capital coming from the completed mercantile expansion period as seen in the city-states' case. It, in contrast,

became an early feature of Dutch capitalism as witnessed by the fact that already in 1652 –that is long before the end of the Dutch mercantile expansion- it was complained widely and authoritatively that the interests of trade were neglected because Heeren [regents] were not merchants, but drew their income from houses, lands and investments.¹⁸⁰

Second, in addition to investment in land and in other land-bearing assets, another resemblance between city-states and Dutch in accordance with utilization of surplus capital was investment in war-making and state-making

¹⁷⁸ Ibid.

¹⁷⁹ Ibid.

¹⁸⁰ Ibid.

activities. By landing their surpluses from the very beginning, Dutch capitalism used its war-making and state-making capabilities to organize a protection system depending on land. Thus they managed to establish the governmental organization of United Provinces including advantages of capitalism and territorialism far more improved and effective than ever seen.

Finally, conspicuous similarity between Dutch and city-states in utilization of surplus capital was a large amount of investment in consumption of cultural products. They respectively took on their historical roles in the development of the cultural and intellectual fronts of the capitalist world history, and 'just as fifteenth-century Venice and Florence had been the centers of the High Renaissance, so early seventeenth century Amsterdam become the center of the transition from the climate of the Renaissance to the climate of the Enlightenment.'¹⁸¹

By reaping benefits of the Baltic trade, Dutch managed to get great achievements through her three peculiar reasons. These could be classified as institutional, geographical and politic-economic reasons. The first reason was 'modernity of Dutch institutions which were highly favorable to capitalist enterprise'; and more importantly those institutions had not been built upon a feudal past in the most of the country. Thus, absence of a feudal past in the country which had surplus capital from Baltic trade brought opportunity to the capital to form the country as a fully modern capitalistic modes, relations and institutions.

Most land was owned by peasant proprietors or tenants with capitalist-type leases and money rent..there was a rather small nobility of landowners, and virtually no Church land after the departure of the Spanish. Political power resided largely in the urban bourgeoisie.¹⁸²

¹⁸¹ Arrighi, The Long Twentieth Century, 135.

¹⁸² Angus, Madison, Dynamic Forces in Capitalist Development, p. 33.

The second reason was geographical predominance of the Dutch. Rivers of the Netherlands provided access opportunities to markets located at the heart of Europe. Netherlands had 'a scope for developing ocean ports, and possibilities for internal water transport were exploited to provide regular and frequent services for passengers and freight at lower cost than in any other country',¹⁸³ or any other course for trade in that period.

The third and last reason on which the Dutch success had been built was the pursuit of mercantilist policies. However, before considering mercantilist policies of the Dutch and then of other European powers in present and following periods, the foundations of expansionary scope of Dutch commercial system from regional to global are required to be noted. In fact, as Braudel suggests 'once Holland had conquered the trade of Europe, the rest of the world was a logical bonus, thrown in as it were',¹⁸⁴ and the strength of Amsterdam rested on three foundations: Dutch East India Company, the Bank of Amsterdam, and the merchant fleet.

The Dutch East Asia Company was established by six chambers of merchants in 1602 to 'exercise exclusive trading and sovereignty rights over huge overseas commercial spaces.' Company was formed by seventy-three directors, all of whom were administrators of present trading companies which were business enterprises 'supposed to yield profits and dividends but also to carry our war-making and state-making activities on behalf of Dutch government.'¹⁸⁵ Common affairs were carried out by an executive board called College of Seventeen which was named by the chambers, eight of which were named by the Chamber of Amsterdam. Each chamber organized

¹⁸³ Angus, Madison, *Dynamic Forces in Capitalist Development*, p. 33-34.

¹⁸⁴ Braudel, *Civilization and Capitalism*, vol. III, p.207. See also: Arrighi, *The Long Twentieth Century* p. 137.

¹⁸⁵ Arrighi, *The Long Twentieth Century*, p.139.

and performed its members' business: the purchases to be made in India, the amount of gold to be sent, and the sale of merchandise received. As an executive board of the Company the College of Seventeen directed the common and high policies: organization and setting into action of fleets, and the price of the goods. The position of the Company in the Amsterdam oriented system was so decisive that it had 'a monopoly on trade with India, where it practiced the *mare clausum* (closed sea), forbidding India to the English, the Portuguese, and the French.' By exercising regal rights, such as war, peace and treaties with pagans, nomination of governors and councils, the Company, in the end, enjoyed a land-based army in India, and a sea navy, bringing wealthy into Europe.¹⁸⁶

The second foundation by which Amsterdam became a global power had two interrelated phenomenon, which were creation of Amsterdam Bourse as stock market and foundation of the Bank of Amsterdam (Wisselbank) in 1609 'to carry out functions typical of future central banks'.

The power of the Amsterdam Bourse to attract the supply of and the demand for idle money and credit all over the Europe at the expense of the Genoese fairs grew rapidly at the turn of the sixteenth and seventeenth centuries, and became overwhelming after the crises of 1619-22.

As for the Wisselbank, in the course of time it became a credit bank by providing credit mainly to the city of Amsterdam in times of war and to the East India Company, but in times it also made loans to private companies. Consequently, foundation of Wisselbank and creation of Amsterdam bourse as a stock market transformed Amsterdam 'not just into the central warehouse of world commerce but also into the central money and capital market of the European world-economy.'¹⁸⁷

¹⁸⁶ Beaud, Michel, A History of Capitalism , pp.23-24.

¹⁸⁷ Arrighi, The Long Twentieth Century, p.138.

Finally, the third foundation playing a crucial role in transformation of Amsterdam into the central warehouse of world commerce and world finance was the merchant fleet by which 'like the English, the Dutch had heavy, solidly built, and well-armed ships for the route to Levant and India.'

All of these activities were directed and controlled by a rich and globally powerful bourgeoisie who exercised the Amsterdam-oriented system.

This bourgeoisie carried out trade, developed industry, organized "Chambers of Commerce", controlled colonial companies, watched over the University of Leyden, endowed the Bank of Amsterdam, and made Amsterdam the financial center of the time; indeed, it was tempted to impose the hegemony of Holland onto the Low Countries as a whole.¹⁸⁸

Thus, for more than a century, approximately from 1610 to 1740, the Dutch merchant class and governors led the capitalist accumulation process of European world-economy. In this period, the Amsterdam Bourse played a crucial role by recycling capital 'from profitable but stagnant or contracting lines of businesses, and perpetually rearranging among governments and business enterprises. Through these recycling and rearranging processes the Dutchmen could profit not only by their own activities, but also by the military, commercial and industrial ventures of the others. But, as a result of evolutionary characteristics of the historical capitalism the capacity of the Dutch was limited to transform those activities and undertakings of the others into her own expansion. As parallel to this limited capacity of Dutch, and as it is intrinsic to any capitalistic system , 'the very success of the Dutch strategy of accumulation soon brought into being forces that constrained, undermined, and eventually destroyed the capabilities of the Dutch world trading

¹⁸⁸ Beaud, Michel, A history of Capitalism , p.24.

system.¹⁸⁹ Those forces regarded as some variants of mercantilism which made its mark on following eras.

Spreading up of mercantilism among territorialist rulers of Europe who imitated the Dutch in the late seventeenth and early eighteenth centuries 'created an environment in Europe and in the world at large in which the Dutch Commercial system could not survive, no matter what the Dutch did or did not do.'

The more the Dutch succeeded in their endless accumulation of capital, and the more this accumulation was turned into ever-growing capabilities to shape and manipulate the European political system, the more European territorialist rulers were drawn into the Dutch path of development, that is, into imitating as much as they could (or desirable) of Dutch trade, war-making and state-making techniques.¹⁹⁰

By the late seventeenth century success of French and English mercantilism brought a vital pressure and restriction on Dutch world trading system.

With the rise of English capitalism and French protectionism, with the three wars against England (that of 1652-54 and especially those of 1665-67 and 1672-74), with the war against France in 1672 and especially by participating in the war Spanish Succession (1702-14), with the economic depression and the fall in prices of the second half of the seventeenth century, Dutch capitalism became indebted, weakened, and finally lost its dominant position.¹⁹¹

However, as Jonathan Israel points out 'the basic reason for the decisive decline of the Dutch world-trading system in the 1720s and 1730s was the

¹⁸⁹ Arrighi, *The Long Twentieth Century*, p.140.

¹⁹⁰ Arrighi, *The Long Twentieth Century*, pp. 140-41.

¹⁹¹ Beaud, *A history of capitalism* p.26.

wave of new-style industrial mercantilism which swept practically the entire continent from around 1720.'

Down to 1720 countries such as Prussia, Sweden, and Denmark-Norway had lacked the means and, with the Great Northern War in progress, the opportunity, to emulate the aggressive mercantilism of England and France. But in the years around 1720 a heightened sense of competition among the northern powers, combined with the diffusion of new technology and skills...led to a dramatic change. Within the next two decades most of northern Europe was incorporated into a framework of systemic industrial mercantilist policy.¹⁹²

In fact, Dutch merchants were completely unable to divert or compensate this mercantilist progress, because such a resistance was beyond their organizational capabilities. But they had a great capability;

what was not beyond their organizational capabilities, and indeed was the most sensible course of action for them to undertake under the circumstances, was to withdraw from trade and concentrate on high finance in order to benefit from, instead of succumbing to, the spread of mercantilism.¹⁹³

Surrounded by territorial mercantilist organizations and their environment of increasing competition, the Dutch world system of trade was gradually decreased. But, on one hand that environment of increasing competition undermined the Dutch system of accumulation and Dutch predominance; on the other hand a deepening and widening need of money and credit for the competing territorialist organizations of Europe was proved. At this historical point the Dutch capitalist class had to step into a familiar position by switching from trade to high finance as Florentine-led capital did in the late fourteenth and early fifteenth centuries of Italy, and again Genoese-led

¹⁹² Jonathan, Israel, *Dutch Primacy in World Trade, 1585-1740*, Oxford: Clarendon Press, 1989, p.383-4. Quoted by Arrighi, *The Long Twentieth Century*, pp. 141-142.

¹⁹³ Arrighi, *The Long Twentieth Century*, p.142.

capital did it around 1560s when the Genoese business diasporas gradually withdraw from commerce and became financier over the European finances. Thus from around 1740s, the leading elements of the Dutch gradually withdrew from trade to become 'the bankers of Europe'. As we have already seen Braudel points out disposition of this phenomenon that this withdrawal has reflected the recurrent character of world-systemic tendency. The same tendency can be seen in Italy of fifteenth century, and again around 1560s when the Genoese business diaspora gradually withdraw from commerce and took over financier role over European finances.

By the same token after the Dutch, this tendency was duplicated by English during and after the Great Depression of 1873–96 when the end of 'the fantastic venture of the industrial revolution' produced the *superfluous money* capital. Finally, by following a similar 'fantastic venture' way of so-called Fordism-Keynesianism in twentieth century, the tendency has been going on to determine destiny's of world capitalist trajectory since 1970s to present under the hegemonic label of United States. As suggested by Braudel it seems that 'every capitalist development of this order [which has a cyclic character throughout the world capitalist history] seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: *a sign of autumn*'

3.3 The Third Systemic Cycle of Accumulation:

British Supremacy

As the cut-throat competition escalated between or among territorial-oriented powers, financial needs became more and more urgent. By abstaining it from struggles, the Dutch capitalist class necessarily chose a way of exploiting these harsh conditions by dealing with the financial affairs.

By the 1760s, all the states of Europe were queuing up in the offices of the Dutch money-lenders: the emperor, the elector of Saxony, the elector

of Bavaria, the insistent king of Denmark, the king of Sweden, Catherine II of Russia, the king of France and even the city of Hamburg (although it was Amsterdam's successful rival) and lastly, the Amsterdam rebels.¹⁹⁴

However as far as following two hegemonies are concerned the Dutch hegemony could not be considered more than a 'pale shadow' of them.

For more than half a century the Dutch continued to lead the states of the newly born Westphalia System in a specific direction- most notably, in the direction of overseas commercial expansion backed by naval power and the formation of joint-stock chartered companies.

But in fact 'the Dutch never governed the system that they had created.'¹⁹⁵ Instead, shortly after establishment of the Westphalia System (1648) so-called Dutch dominance found itself in the midst of territorialists' struggles on the world supremacy- from outbreak of the Anglo-Dutch Wars in 1652 to the end of the Napoleonic Wars in 1815 when the Britain proclaimed its unprecedented superiority ever seen. In brief, dominated by two great powers - France and England – 'the system of states established at Westphalia under Dutch leadership was truly anarchic' that means 'absence of [a] central rule'¹⁹⁶ organizing and managing the whole system.

As a corollary to withdraw of Dutch capitalist class from trade to become 'bankers of Europe' in its own financial expansion epoch since 1740, the Dutch dominion's seaborne power was gradually diminished, and finally annihilated by Britain in the fourth Anglo-Dutch war (1781-1784). It meant not only annihilation of leftovers of material (trade) expansion epoch of Dutch hegemony, but also acceleration of transition period to a new 'global' hegemonic power. It was end of the Napoleonic Wars which 'wiped the

¹⁹⁴ Braudel, *Civilization and Capitalism*, vol. III, pp.246-7.

¹⁹⁵ Arrighi, *The Long Twentieth Century*, p.47.

¹⁹⁶ Arrighi, *Hegemony Unraveling* 2, p.97.

United Provinces off the map of Europe'¹⁹⁷, and heralded the new hegemonic power in 1815.

As a whole, in a full systemic cycle of accumulation (MCM), collaboration between and among the main and subordinate powers in material expansion period (MC) becomes a cut-throat competition in the pursuing financial expansion period (CM) which indicates transition into a new cycle. Thus, the seesaw reappears again in which previous leading centers that represents high finance falls, on the other hand rival center(s) sitting on the other ascending side of seesaw rises in following new cycle of accumulation process (MCM).

The process including descent of Dutch but in the same time ascent of Britain precisely indicated the transition period between two hegemonies. 'Through the 1780s and to a lesser extent the 1790s, Dutch rule in high finance coexisted uneasily with the emerging British rule, just as Genoese rule had done with the emerging Dutch rule in the 1610 and early 1620s.'¹⁹⁸

No wonder these two antagonistic dispositions coexist, on the contrary as we have seen in the case of transition from Genoese to Dutch it reflects the dialectic of recurrent movements of capital towards endless accumulation in the capitalist world history. In our discussion it exactly demonstrates the transition from financial expansion (CM¹) epoch of the Dutch hegemonic cycle into material expansion (MC) of British hegemonic cycle. Here cut-throat competition among and/or between leading powers dominated the interstate system, and capital dealt with creating producing a new space to alleviate its endless thirsty.

As a rule escalation in competition among these coexisting rising and descending powers eventually reaches a conclusive point by which end of

¹⁹⁷ Arrighi, *The Long Twentieth Century*, p. 143.

¹⁹⁸ Arrighi, *The Long Twentieth Century*, p. 160.

CM' epoch of previous systemic cycle (MCM') is proclaimed in the midst of 'global' harsh struggles. These 'worldwide' struggles mean 'world war' by which capitalist world's destiny is initiated to be determined by a new cycle; such as Thirty Years Wars, the Napoleonic Wars and the Second World War. Each of these climaxes successively proclaimed end of the previous cycle (in its CM' phase) and in the same time victory of subsequent one (in its MC phase).

Although it became unrivalled power after following years of the Napoleonic Wars, Britain, especially thanks to the beginning of innovations in cotton textiles after 1760, was the biggest trading country. 'Once London had displaced Amsterdam as the financial centre of the globalizing European system of states, as it did by the 1780s, the UK became the main beneficiary of inter-state competition for mobile capital.' Thus, it emerged as not only the 'heir of the capitalist tradition initiated by the Genoese and developed further by the Dutch',¹⁹⁹ but also as the absorber of 'virtually unlimited credit for its power pursuits'.²⁰⁰

Supported by giant financial supplies, the British capital goods industry demonstrated a huge progress. It was textile innovations of eighteenth century sowed the seeds of age of industry. Remarkable results of those innovations not only increased the productivity, also and most importantly spurred the innovative attitudes throughout the economy. Although many of the innovations in textile made by the artisans still belonged to relatively primitive industrial conditions, they opened the way for great scientific innovations requiring more and more investments. The decisive change came from innovations in iron and steel industry, steam power, iron ships and railways in nineteenth century. 'Combined with the contemporaneous

¹⁹⁹ Arrighi, *Hegemony Unraveling II*, p. 97.

²⁰⁰ Arrighi, *The Long Twentieth Century*, p. 160.

spread of mechanization within the textile industry, these innovations transformed the British capital goods industry into an autonomous and powerful engine of capitalist expansion.²⁰¹ Inevitably, it was a worldwide expansion because 'the process of innovation was rapidly diffused to other countries which were institutionally ripe for capitalist development.'²⁰²

It was great achievement of British architecture of the nineteenth century to build a world which had a single, networked and worldwide economy never seen before. Britain did it with the assistance of railways and steamships. Particularly in the middle of the century material expansion of capital was so accelerated that it resulted in *globalization* of the capitalist world economy.

The most remote parts of the world began to be linked together by means of communication which had no precedent for regularity, for the capacity to transport vast quantities of goods and numbers of people, and above all, for speed.

As this system of transport and communication took shape, world trade expanded at unprecedented rates. From the mid 1840s to the mid 1870s, the volume of seaborne merchandise between the major European states more than quadrupled, while the value of the exchange between Britain and Ottoman Empire, Latin America, India and Australia increased about sixfold.

Eventually this expansion of world trade intensified inter-state competition and rivalries. But in the middle decades of the century the advantages of hooking up to the British entrepot so as to draw upon its equipment and resources were too great to be willingly foregone by any European state.²⁰³

As we have seen previously, material and financial expansions are both episodes of a cyclic system of accumulation. In the course of the capitalist

²⁰¹ Arrighi, The Long Twentieth Century, p. 161.

²⁰² Angus, Madison, Dynamic Forces in Capitalist Development, p.37.

²⁰³ Eric Hobsbawm, The Age of Capital 1848-1875, New York 1979, pp. 37-9, 50-4. Quoted by: Arrighi Hegemony Unraveling II, p. 99-100.

world history there are systemic cycles reiterating successively; Genoese, Dutch, Britain and finally United States. As it has been already illuminated, each cycle is larger in scale and scope than previous one. In this regard overaccumulation of capital in British case was much further than that of previous cases as its material expansion epoch was.

Like all phases of material expansion of previous cycles of accumulation, the material expansion of British cycle was also faced with the familiar destiny of switching from trade and/or production to finance. It was financial expansion called *sign of autumn of British cycle from about 1870 onwards*, as Genoese experienced around 1560, and again Dutch around 1740.

During the Great Depression of 1873-96 'because of the excessive development of production capacities; the sharpening of competition; and the fall in profits, linked both to the difficulty of realizing the produced value and to the fall in prices²⁰⁴. As a matter of fact the 'cut-throat price competition had indeed reduced profits to unreasonably low levels and optimism had given way to uncertainty and a sense of agony.' But the formula for recovering 'unreasonable' profit rates and for relieving the surplus capital's pressure on the leading center of finalizing material expansion epoch was familiar: *becoming banker* of competing powers.

Thus, the *Great Depression* can be described as transforming of British cycle; the excellent material expansion epoch (MC) of British cycle of accumulation came to an end, and it had gradually reached the second period as the phase of financial expansion (CM^I) replaced it from about 1870 onwards. As we have clearly seen in those 'closing phases of all previous systemic cycles of accumulation, states began to compete keenly for the

²⁰⁴ Beaud, A history of Capitalism, p.135.

mobile capital that had been withdrawn from trade and was being made available as credit.²⁰⁵

In the midst of escalating struggles and cut-throat competitions between or among states, the capital continued to switch itself from trade and production to finance. Switching crises of Great Depression of 1873-96 resulted in Edwardian *belle époque* (beautiful era) 1896-1914.

Only towards the end of the century, prices began to rise and profits with them. With the improvement in business conditions, the gloom of the preceding decades gave way to a general euphoria. “Everything seemed right again—in spite of rattlings of arms and monitory Marxist references to the ‘last stage’ of capitalism. In all of Western Europe, these years live on in memory as the good old days—the Edwardian era, *la belle époque*”²⁰⁶

However, ‘the *belle époque* did not last long. The “rattlings of arms” was not the harbinger of the “last stage” of capitalism but it did signal the approaching demise of the global market as instituted under British hegemony.’²⁰⁷ In addition to this *belle époque*, as we have already known it was actually financial expansion of the British Hegemony, disruptions of Great Depression resulted in a spread in industrialism and imperialism.

The devastation of European agriculture created powerful incentives to industrialize, so as to provide displaced labor, capital and entrepreneurship with alternative forms of employment. Pressure to industrialize, in turn, revived mercantilist tendencies in the form of protectionism at home (to shelter new industries from intensifying global competition) and imperialism abroad (to establish political control over sources of raw materials and outlets for products).²⁰⁸

²⁰⁵ Arrighi, The Long Twentieth Century, 171-172.

²⁰⁶ Arrighi, Global Market, p.23.

²⁰⁷ Ibid.

²⁰⁸ Ibid.

Thus, financialization of British capital, on one hand undermined the industrial and the imperial underpinnings of British hegemony, on the other hand London the main center of the finance. At the end of the nineteenth century 'Britain was no longer the workshop of the world, nor was it the only power actively seeking an overseas empire.'²⁰⁹

As we know one of the most peculiar characteristic of all financial expansions is cut-throat competition between or among states. Thus, in the financial expansion epoch of British cycle the same was seen clearly, and cut-throat competition and struggles coming from US and especially from Germany who desired continental supremacy made the Britain more generous for military expenditures and loans to the friendly powers especially Russia, Italy and France. Although before and 'during the war Britain did continue to function as principle banker and loan-riser on the world's credit markets,'²¹⁰ the financial burden of this process on Britain's capacity to keep its throne in the capitalist world surpassed the military and political successes of the Great War.

In sum financial expansion (CM^I) period of British hegemonic cycle, for some it was the age of imperialism, had some characteristics as cited by Michel Beaud²¹¹. Firstly, this period involved 'the development of a second generation of industrial techniques and industries' by which the capital created a new spatial fix towards ascending United States. Secondly 'the concentration of capital and the emergence of finance capital' brought the financialization of capital since 1873 to gain high mobility.

By leaving the no longer profitable means of production of expiring material expansion, as we already known, the capital manages to kill two birds with

²⁰⁹ Ibid.

²¹⁰ Arrighi, *Hegemony Unraveling II*, p.102.

²¹¹ Beaud, Michel, *A history of Capitalism*, p. 135.

one stone. On one hand it unleashes itself from expiring material expansion's conditions in which the profit rate become unreasonable; on the other hand it creates its high finance by which capital not only makes high profits through credits to competing states, but also by liquefying and becoming more fluid it can easily flow from one area to another. It means, in the course of time it can easily lay the foundation of a new spatial fix in a *new geography*.

Finally 'the new wave of colonization and expansion on a worldwide scale, leading to the dividing up of the world and the Great War' resulted not only from unreasonable profit rates in former economic fields, but also from increasing inner and outer competition to gain new profitable opportunities to not to be devalued. It means it was sign of autumn for British Hegemony since 1870, and not surprisingly escalation of cut-throat competition and conflicts once again revolutionized the geography of historical capitalism, but this time they operated in favor of the United States.

3.4 The Fourth Systemic Cycle of Accumulation:

American Hegemony

The gradual withdrawing of British capital from trade and production to finance to exercise its own high finance from the last quarter of the nineteenth century onwards melted the productive leadership of the United Kingdom. Thus 'UK lost its productivity lead to USA in the 1900s, but it kept ahead of European countries until well after the Second World War.'

The emergence of the US as the technical leader was due mainly to its large investment effort. The rate of domestic investment was nearly twice the UK level for the sixty-year period 1890-1950....The USA also had huge natural resources of land and minerals which by 1890 had been opened up by improvements in transport and the creation of a vast internal market whose population was much bigger than that of any of the

advanced European countries, and was growing much faster due to immigration and high fertility.²¹²

Stimulated by the 'huge natural resources of land and minerals' of the North America's territory, and by the creation of a semi-continental internal market integrated with an improved network of transport, finally and most importantly by the effective waves of the Second Industrial Revolution 1870-1914, the global capital greatly strengthened US leadership during the First and Second World Wars. It clearly meant a new spatial fix for global capital and so emergence of a new accumulation cycle in the capitalist world history.

In interwar years historical capitalism had once again witnessed a new relay race of accumulation in favor of United States. As seen in the following years of Second World War, the interwar years were a transitional period in which the hegemonic leadership was changed. While Britain exercised its *autumn* of world dominance, the US gradually laid the foundation of its heyday. When 'the suspension of the gold convertibility of the British pound in September 1931 led to the final destruction of the single web of world commercial and financial transactions on which the fortunes of the city of the London were based'²¹³, US dollar was already full-fledged reserve currency, but it had been far from displacing Britain in production and in regulation of world money. This destruction not only spurred the pre-existing cut-throat competition throughout the 1930s, but also strengthened protectionist policies towards nation-state economies.

As a inevitable result of increasing cut-throat competition between and among states from 1939 to 1945 the inter-states system experienced another great war. In these years the inter-states system was not completely

²¹² Angus, Madison, *Dynamic Forces in Capitalist Development*, p.40.

²¹³ Arrighi, *The Long Twentieth Century*, p. 274.

made up of military confrontations, there were also seeds of the subsequent world order in this destructiveness as seen in the Thirty Years Wars and Napoleonic Wars.

By the end of the Second World War, the main contours of this new world order had already emerged: at Bretton-Woods [1944] the foundations of a new world monetary system had been established²¹⁴; at Hiroshima and Nagasaki new means of violence had demonstrated what the military underpinnings of the new world order would be; and at San Francisco new norms and rules for the legitimization of state-making and war-making had been laid out in the UN Charter.²¹⁵

In postwar period the United States had an unprecedented concentration of world power by which she managed to build the rule and institutions of the fourth systemic cycle in the capitalist world history. Militarily she had been already superior than her nearest European rivals who were exhausted by successive great wars. In financial respect scene of the concentration of world power was more brilliant. Successive world wars transformed the US into the granary and workshop of the postwar period. Especially, in European reconstruction with 'excess demand for dollars by *foreign* governments and businesses' the trade and current account surplus of United States demonstrated a remarkable upward movement by which, as Arrighi points out, she 'came to enjoy a virtual monopoly of world liquidity.'

The concentration and centralization of productive capacity and effective demand was equally impressive. In 1938 US national income was already about the same as the combined national incomes of Britain, France, Germany, Italy, and the Benelux countries, and almost three times that of

²¹⁴ The international monetary management system was for the first time collectively established by 730 delegates from all 44 Allied nations gathered at the Mount Washington Hotel in Bretton Woods, New Hampshire in July 1944. By this system rules of commercial and financial relations of leading industrial states were determined. In following year World Bank and International Monetary Fund (IMF) were established for supervising and arranging those rules and procedures to regulate the international monetary system.

²¹⁵ Arrighi, *The Long Twentieth Century*, pp.274-75.

the USSR. But in 1948 it was more than twice that of the above mentioned group of Western European countries, and more than six times that of the USSR.²¹⁶

It is clear that the US was the principal beneficiary of this chaotic inter-states system of 1914-1945. But 'United States was not the first state to benefit tremendously from the troubles of the world economy of which it was an integral and major component.' Since perpetual spatial reorganizations have been one of the main features of the historical capitalism as we have already seen, 'its [United State's] experience had been prefigured by Venice, in the fifteenth century, the United Provinces in the seventeenth century and the United Kingdom in the Eighteenth century.'²¹⁷

As a whole scene of the capitalist world history from 1873 to 1945 had clearly reflected all characteristics of financial expansion epoch (CM') of a systemic cycle of accumulation (MCM'): overaccumulation of capital and decreasing profit rates at *unreasonable* levels, withdraw from trade and production to finance, replacing of collaboration of material expansion period (MC) by cut-throat competition and finally escalation of struggles among leading powers. More importantly, on one hand it reflected *sign of autumn* for the present cycle -British cycle-; on the other hand it heralded a new spatial reorganization period of capital towards a new cycle -American cycle.

In great wars years the US thrived by managing to isolate itself to some extent, from escalating struggles and military confrontations among *Old World* powers.

In the First and Second World Wars, the United States had grown rich and powerful by letting other countries do most of the actual fighting; by supplying them with credit, food and weapons; by watching them exhaust

²¹⁶ Arrighi, The Long Twentieth Century , p.275.

²¹⁷ Arrighi, The Long Twentieth Century , p.276.

one another financially and militarily; and by intervening late in the struggle to ensure an outcome favorable to its national interest.²¹⁸

Thus by guaranteeing its high position in world politics during war years, the United States emerged as the strongest economic and military power in postwar period of 1945 onwards. It can be argued that the postwar years introduced a huge reorganization and restructuration period ever seen. As we have seen, there has been a decisive course in the historical capitalism beginning to run in a relatively primitive and local environment- Italian capitalist city states-, but today continuing in a more comprehensive and fully global one-United States.

As the main victorious, the United States necessarily had to be driving force of the postwar era by undertaking several initiatives. Before bringing out what those initiatives are two interrelated crucial points should be emphasized. The first was overcoming of Soviet Union's threat on capitalist West Europeans, which provided a wide range of opportunities not only for the prosperity of the United States, but also of the capital accumulation itself. Deterioration of relations with Soviet Union after 1945, made the United States more cautious on the security issues of Western Europe. To a large extent, during the Cold War period this so-called threat was used as a very effective perplex in several political, economic and military measures and implementations in Western and non-Western capitalist world. In fact most of those measures and implementations were necessities of postwar expansion and reorganization of the capital accumulation process showing its mettle under the label of United States as it did previously under Genoese, Dutch and Britain labels. The second crucial point was irrevocable eradication of isolationism of the United States in global affairs as a result of US became the leading power of the fourth systemic cycle of accumulation.

²¹⁸ Arrighi, *Hegemony Unraveling II*, p.111.

It meant she lost its preference about whether or not intervene in global politics. To sum up in Robert Gilpin's words;

as relations with the Soviet Union deteriorated after 1945, the United States realized that there were urgent fundamental problems related to the security of Western Europe. The most pressing need was to assist in the revival of the West European economy while also finding a way to guarantee the military security of the West Europeans against the threat from the Soviet Union...It was vital to prevent a retreat into isolationism like that which had followed World War I and contributed to the outbreak of World War II.²¹⁹

As for the postwar initiatives undertaken by the United States who had a strong cooperation with its Western European allies, there were three main initiatives to construct the new world order:

The first important initiative was the Marshall Plan launching in 1947 by which huge capital resources were transferred to the Western Europe. It ended in 1951 and its cost to the United States was approximately \$13 billion. By one estimate, in the United States \$9.02 in the year 2006 has the same "purchase power" as \$1 in the year 1947.²²⁰ Thus, this amount would be \$119, 6 billion in 2006 dollars. 'The Marshal Plan initiated the remaking of Western Europe in the American image and, directly and indirectly, made a decisive contribution to the 'take-of' of the expansion of world trade and production of the 1950s and 1960s.'²²¹

²¹⁹ Robert Gilpin, "The Rise of American Hegemony," in *Two Hegemonies: Britain 1846-1914 and the United States 1941-2001* edited by Patrick Karl O'Brien and Armand Clesse (Aldershot: Ashgate Publishing, Ltd., 2002), pp. 165-182.

²²⁰ For Purchasing Power of Money in the United States from 1774 to 2006 see:
<http://www.measuringworth.com/ppowerus/result.php> , august 2007.

²²¹ Arrighi, *The Long Twentieth Century*, p. 296.

The United States was able to finance the system because, at the end of World War II, it was the world's major creditor. Like Great Britain in the late nineteenth century and like Japan in the late twentieth century, the United States used its accumulated wealth to help create a world that American leadership believed would serve both American economic and political interests.²²²

The second initiative was formation of European Economic Community (EEC). While this initiative was mostly undertaken by West Europeans themselves, it was widely supported by US. Although such European integration projects had been idealized by several statesmen and philosophers for centuries, it was realized only after Second World War for not idealistic but economic and political purposes.

Although the political goal of reconciling France and Germany was the principal purpose of the EEC, its proponents believed that the creation of a huge market in Western Europe would give the West Europeans the economic strength to resist their domestic Communist Parties and the blandishments of the Soviet Union.²²³

This initiative would not only end historical hostilities in Europe, and prevent Soviet threat on whole of the continent, but also enable the global integration of capitalist world. As 'American officials believed that, when Western Europe had regained its economic strength and self-confidence, the West Europeans would lower their external barriers and participate in the open world economy envisioned by the United States at Bretton Woods.'²²⁴

Finally, the third initiative undertaken by US was creation of the North Atlantic Treaty Organization (NATO) in 1949 by which two sides of Atlantic were linked militarily. By NATO, United States and Western Europe became

²²² Gilpin, *The Rise of American Hegemony*," in *Two Hegemonies: Britain 1846-1914 and the United States 1941-2001*, pp.165-82.

²²³ Ibid.

²²⁴ Ibid.

a military union against outer threats, particularly from Soviet Union. In short, a remarkable network including firm economic, politic and security ties between US and Western Union allies managed to be established by all these three initiatives only after a few years since the end of World War II.

Thus, by using impulsive forces of those three initiatives with the assistance of rules, institutions and arrangements of Bretton Woods system, the new world order under the leadership of United States experienced a tremendous material expansion period in the first quarter century of post-World War II. As called by the most of authors it was ‘the Golden Age of Capitalism’ which was the most exceptional period of economic growth in the capitalist world history. Global growth rates for industrial production and commercial trade averaged 5.6 and 7.3 percent respectively for about quarter of a century (see Table 3.1).

Table 3.1 Average Annual Growth Rates in World Industry and Trade

	World Industry	World Trade
1860-70	2.9	5.5
1870-1900	3.7	3.2
1900-1913	4.2	3.7
1913-1929	2.7	0.7
1929-1938	2.0	-1.15
1938-1948	4.1	0.0
1948-1971	5.6	7.3

Source: Walter W. Rostow, The World Economy. Quoted by Michel Beaud, A history of Capitalism.

There is little doubt that the quarter century following post- World War II reconstruction was a period of unprecedented prosperity and expansion for the world economy. Between 1950 and 1975 income per person in the developing countries increased on average by 3 per cent p.a., accelerating from 2 per cent in the 1950s to 3.4 percent in the 1960s. This rate of growth was historically unprecedented for these countries and in excess of that achieved by the developed countries in their period of industrialization...In the developed countries themselves ...GDP and GDP per head grew almost twice as fast as in any previous period since 1820. Labour productivity grew twice as fast as ever before, and there was a massive acceleration in the rate of growth of the capital stock. The increase in capital stock represented an investment boom of historically unprecedented length and vigour.²²⁵

However the situation for the most highly expansive period of capitalist world history became very different only in the midst of 1970s.

Unemployment rates in the West had almost doubled while inflation rates had increased almost threefold. Surplus capacity had appeared in the steel, textiles, and ship-building industries, and was feared in others. Confidence that Keynesian policies could ensure uninterrupted growth had been undermined if not shattered. Meanwhile, the United States had been defeated in Vietnam and no longer seemed to have either the capability or inclination to extend its military domination to the far corners of the world. The inability of the United States to prevent or counteract the oil price increases of 1973-1974 seemed to symbolize the drastic changes that had taken place.²²⁶

As a whole, the perspective of the 1950s and 1960s was not a peculiar expansion period of capitalist-world economy. In fact it was fully reflected the

²²⁵ Andrew Glyn, Alan Hughes, Alain Lipietz, and Ajit Singh, *The Rise and Fall of Golden Age*, in S.A. Marglin and J.B. Schor, eds., *The Golden Age of Capitalism. Reinterpreting the Postwar Experience*, Oxford: Clarendon Press, 1991, pp.41-2. Quoted by Arrighi, *The Long Twentieth Century*, p.298.

²²⁶ Robert O. Keohane, *The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967—1977* in Goddard, C. Roe; Passe-Smith, John T.; Conklin, John G., *International Political Economy : State-Market Relations in the Changing Global Order*, Lynne Rienner Pub, 2003, p.90.

recurrence of *systemic cycle of accumulation* (MCM) in the capitalist world history. Similar to that of the British cycle from the mid 1840s to the mid 1870, the expansion of 1950s and 1960s constituted material expansion (MC) phase of the American cycle. In all cycles of accumulation as we have seen, during a material expansion period surplus capital has reorganized around a new spatial fix by concentrating on the new trade and production opportunities towards endless accumulation. And again in the fourth *systemic cycle of accumulation* under the United States' mark 'surplus capital was thrown back into commodity trade and production on a sufficiently massive scale to create the conditions of renewed cooperation and division of labor within and among the separate governmental and business organizations of the capitalist world-economy.'²²⁷

As a rule the speed, scope and scale of a cycle has been greater than previous ones. In this respect, the switching of surplus capital into trade and production was greater in the US cycle than in any previous cycles of historical capitalism. On the other hand this dominance had not meant that the US cycle was exempted from fate of the other previous cycles. In contrast, by 1970s the material expansion phase of 1950s and 1960s came to a familiar end, as all the others did:

Its [material expansion period of 1950s and 1960s] very unfolding resulted in a major intensification of competitive pressures on each and every governmental and business organization of the capitalist world-economy and in a consequent massive withdrawal of money capital from trade and production.²²⁸

A detailed analysis of financial expansion period of the American hegemony from 1970s onwards shall be dealt with under the following chapter.

²²⁷ Arrighi, The Long Twentieth Century, p.298.

²²⁸ Arrighi, The Long Twentieth Century, p. 299.

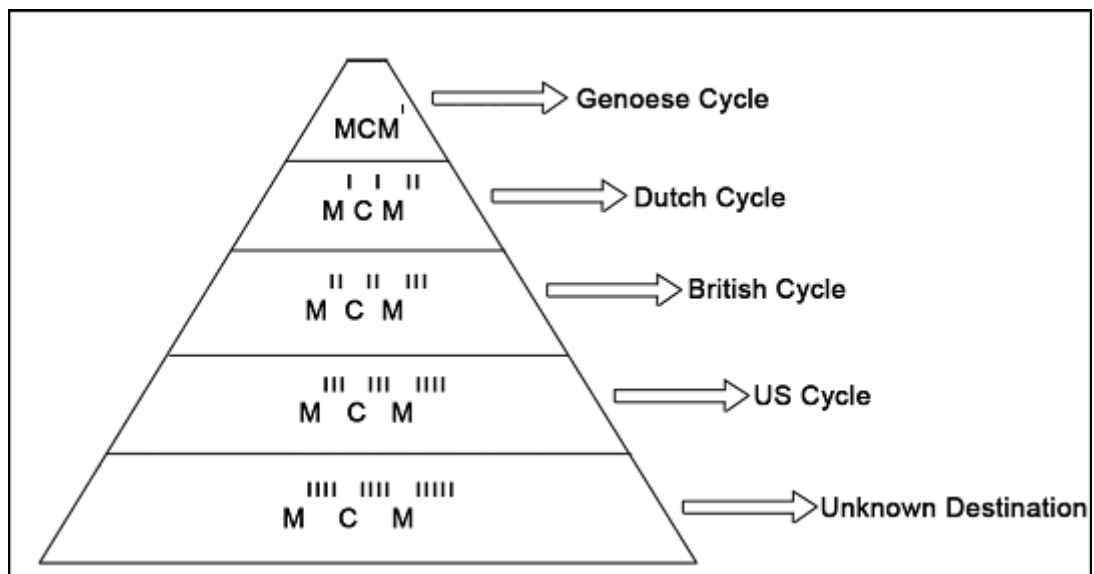
CHAPTER IV.

HEGEMONIC TRANSITIONS

4.1. A Recurrent Story: Past and Present

As we have seen there are four main systemic cycles of accumulation in the modern world history for about five hundred years, Genoese–Iberian cycle, Dutch cycle, British cycle and US cycle. While all the cycles have some conspicuous similarities in their causes to emerge, rise and decline, each of which has been more complex and influential than its predecessor(s). All the systemic cycles of accumulation have practiced similar trajectories in their emergence-each of which has emerged during the financial expansion process of the previous one-, rise-each of which has performed its own material expansion process- and decline-each of which has faced with its *autumn* named financial expansion followed by the new material expansion of the next cycle.

Figure 4.1 Developmental course of systemic cycles of accumulation in the world capitalism.



By transforming Marx's abbreviation of accumulation process, MCM', into these *global* cycles of accumulation in the modern world system, Arrighi, as we have seen, provides us not only a systemic view but the opportunity to make those cycles comparable with one another. In brief, each of the systemic cycles of accumulation in modern world history refers to a full MCM process which consists of a process called material expansion, MC, and a following process named financial expansion, CM, which leads to emergence of the next cycle. Furthermore, within each cycle material expansions include a new spatial fix by which wider and deeper division of labor is able to occur.

Figure 4.1 shows the similar dynamics of systemic cycles of accumulation. It suggests each cycle having its own material and financial expansions that jointly constitute the systemic cycle, MCM, is larger in scale and scope than preceding one. Thus, in the course of time, there is not only a steady increase in trade and production, but an increasing expansion in geographical size and functional scope of the successive cycles.

Similar dynamics of systemic cycles of accumulation make it possible to grasp the modern world history as a whole, and make the cycles comparable with one another, but they also, as a corollary, make it possible to clarify differences between and among the cycles. As Arrighi suggests, if we make a comparison between and among the 'agencies, strategies and structures of successive cycles, we discover, not only that they are different, but also that the sequence of these differences describes an evolutionary pattern towards regimes of increasing size, scope and complexity.'²²⁹ By

²²⁹ Arrighi and Silver, *Capitalism and World Disorder*, p.264.

focusing on leading capitalist agencies of the successive regimes, Figure 4.2 sums up this evolutionary pattern.

At the time of the Genoese regime of accumulation, while the republic of Genoa was a small and simply organized and militarily trivial city-state, it managed to control Spanish and thereby European finances for about sixty years. 'It was not by her ships, seamen, merchants and captains of industry that Genoa ruled the world'²³⁰; it was her 'far-flung commercial and financial networks the Genoese capitalist class, organized in a cosmopolitan diaspora, could deal on a par with the most powerful territorialist rulers of Europe, and turn the relentless competition for mobile capital among these rulers into a powerful engine for the self-expansion of its own capital.'²³¹

Figure 4.2 Evolutionary patterns of the world capitalism

Leading governmental organization	Regime type/cycle		Costs internalized			
	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, *Capitalism and World Disorder*

²³⁰ Braudel, *Civilization and Capitalism*, vol. III, p.164.

²³¹ Arrighi and Silver, *Capitalism and World Disorder*, p.265.

At the time of the Dutch regime of accumulation, the united Province, in comparison with the Genoa, was a larger and more sophisticated organization between disappearing city-states and rising nation states. By developing a relationship of political exchange with Iberian rulers Genoese could externalize its protection costs. Thus 'each of the two partners could specialize in their performance of those functions for which it was best equipped, while relying on the other partner for the performance of those functions for which it was worst equipped.' This exchange enabled the mobilizing of the most favored two powers jointly in their territorialist and capitalistic pursuits.

'Iberian rulers could mobilize the most competitive and powerful cosmopolitan network of trade and finance in existence in support of their territorialist pursuits, while Genoese merchants bankers could mobilize the most competitive and powerful war-and state-making apparatus in existence in support of their capitalist pursuits.'²³²

Different than the Genoese, as seen in Figure 4.2, and as parallel to rise of national states the Dutch regime internalized the protection costs by which it managed to build self-reliance and competitiveness in the use and control of the force. This capacity for using and controlling of 'force enabled the Dutch capitalist class to establish and reproduce its exclusive hold on Baltic trade and to supplement the profits of this trade with an inverted fiscal squeeze on Imperial Spain through plunder.'²³³

As for the British regime, at its rise and full expansion period the United Kingdom was not only a fully developed nation-state but also a worldwide commercial and territorial power. As seen in Figure 4.2, 'if the Dutch regime

²³² Arrighi, *The Long Twentieth Century*, p.150.

²³³ Arrighi, *The Long Twentieth Century*, p.151.

relative to the Genoese had internalized protection costs, the British regime relative to the Dutch internalized production costs as well.²³⁴ This internalization of production costs is a breaking point for the world capitalism because by which in addition to be a mode of accumulation it also became a mode of production.²³⁵

Finally, as the last regime of accumulation, under the US regime the United States has become more than a fully developed nation-state. In fact it has been a continental super power that has a '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.'²³⁶ In addition to internalizing the protection and production costs, as British capitalist class had already done, the US capitalist class internalized the transaction costs as well. This internalization was enabled by the expansion of the vertically-integrated transnational corporations.

As far as internalization of costs by the new regime of accumulation is concerned, it can be seen clearly that there is an evolutionary course by which the historical capitalism has been increasing its geographical size and functional scope toward more complex strategies and structures. But, as pointed out by Arrighi, this 'steady increase in the size, complexity, and power of the leading agencies of capitalist history is somewhat obscured by

²³⁴ Arrighi, *Spatial and Other fixes of Historical Capitalism*, p.534.

²³⁵ See Arrighi, *The Long Twentieth Century*, pp 174-238. 'By internalization of production costs' Arrighi argues it is meant that 'the process through which production activities were brought within the organizational domain of capitalist enterprises and subjected to the economizing tendencies typical of this enterprises....The leading capitalist enterprises of the Genoese and Dutch cycles were typically engaged in long-distance trade and high finance...In the British cycle, in contrast, the accumulation of capital came to be based on capitalist enterprises that were heavily involved in the organization and rationalization of production processes. Arrighi, *The Long Twentieth Century*, p.177.

²³⁶ Arrighi and Silver, *Capitalism and World Disorder*, p.266.

another feature of the temporal sequence.²³⁷ This feature is a recurrent movement between “cosmopolitan-imperial” and “corporate-national” organizational structures.

In the Figure 4.2 these “cosmopolitan-imperial” and “corporate-national” structures are typified as “extensive” and “intensive” respectively. While Genoese and British “cosmopolitan-imperial” regimes were extensive in the sense that they have been responsible for most of the geographical expansion, the Dutch and the US “corporate-national” regime were intensive responsible for the geographical consolidation of the capitalist world economy.²³⁸

In their study Arrighi and Silver suggest that ‘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’²³⁹, but here it shall be argued differently than that of Arrighi and Silver, in fact this movement is reminiscent of jellyfish-like movement not a pendulum-like movement; because a jellyfish-like movement seems to more proper to simulate those regimes of accumulation of the capitalist world history. Just as those cycles have recurrent, spatial and temporal dimensions in a linear trajectory, so does a jellyfish squeezing and opening.

Hence, coinciding with the opening movements of jellyfish, the Genoese and British “cosmopolitan-imperial” regimes were extensive in their strategies toward geographical expansion. ‘Under the Genoese regime, the world was

²³⁷ Arrighi, *The Long Twentieth Century*, p.218.

²³⁸ Arrighi, *The Long Twentieth Century*, p. 218-20. Also see, Arrighi and Silver, *Capitalism and World Disorder*, pp.266-67.

²³⁹ Arrighi, *The Long Twentieth Century*, p.219.

“discovered,” under the British it was “conquered.”²⁴⁰ Coinciding with the squeezing movements of jellyfish, the Dutch and the US “corporate-national” regime, in contrast, were intensive in their strategies toward geographical consolidation of the capitalist world economy:

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 entrepôts and joint-stock chartered companies. And under the US regime, the "conquest" of the world realized primarily by the British themselves was consolidated into a US-centered system of national states and transnational corporations.²⁴¹

While these opening and squeezing movements between extensive and intensive regimes seem to a recurrent back and forth movement in historical capitalism, once these two extensive and two intensive regimes are compared with one another- the Genoese with the British, and the Dutch with the US- the underlying trend of the historical capitalism becomes obvious.²⁴² As parallel to its evolutionary pattern, irrespective of each successive regime’s main feature-intensive or extensive- a perpetual expansion process in world trade and production has been provided, and thus the historical capitalism has demonstrated a very steady developmental course toward more complex structures:

‘The development of historical capitalism as a world system has been based on the formation of ever more powerful cosmopolitan-imperial (or corporate-national) blocks of governmental and business organizations endowed with the capability of widening (or deepening) the functional and spatial scope of the capitalist world economy.’²⁴³

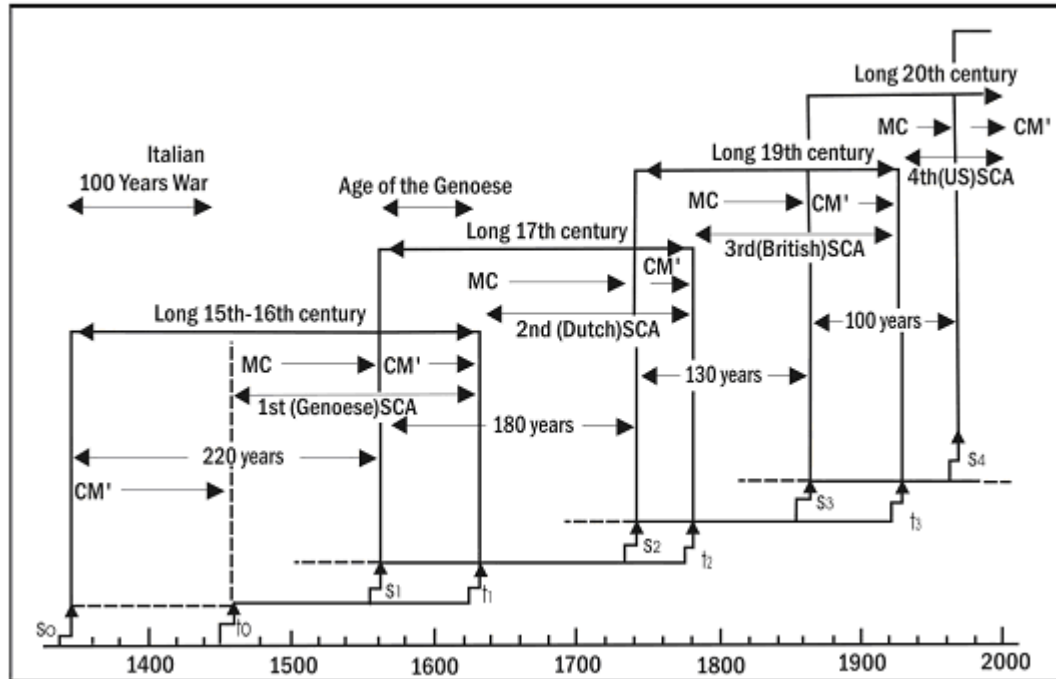
²⁴⁰ Ibid.

²⁴¹ Arrighi, *Spatial and Other Fixes of Historical Capitalism*, p.535.

²⁴² See Arrighi, *The Long Twentieth Century*, pp.219-20.

²⁴³ Arrighi, *The Long Twentieth Century*, p. 220.

Figure 4.3 Long Centuries and Systemic Cycles of Accumulation



Source: Arrighi, *The Long Twentieth Century*

As we have seen largely in the third chapter of this study, each of these regimes called systemic cycles of accumulation (SCA) has experienced its peculiar MCM process. Figure 4.3 sums up those recurrent cycles of accumulation of historical capitalism. Each cycle has launched and developed with a great expansion of world trade and/or production in a new spatial fix. As Genoese capital did until around 1560 through its long distance trade; The Dutch capital did until around 1740 through creating a worldwide network of commercial outposts and exchanges; the British capital did until around 1870 through positioning the not only long-distance or short distance trade and related protection and production processes but also extractive and manufacturing activities into the center of the accumulation process; and finally US capital did around 1970s through a huge reorganization and restructuration period ever seen.

As seen in the Figure 4.3 all the financial expansion periods begin with a *signal crisis* (**S₁S₂S₃** and **S₄** in Figure 4.3) of the present dominant regime of accumulation. 'It is at the time that the leading agency of systemic processes accumulation begins to switch its capital in increasing quantities from trade and production to financial intermediation and speculation.' As Genoese capital did after around 1560 and the Dutch capital did after around 1740 by 'pulling out of trade to specialize in high finance'; British capital did after around 1870 by quickly specializing in 'financial speculation and intermediation'; and finally as US capital did after around 1970 by seeding the saw of neo-liberalism to become the *empire of capital*. This switch indicates 'a "*crisis*" in the sense that it marks a turning point, a crucial time of decision' when the leading agency organizes its activities in favor of the specializing in high finance rather than reinvests the surplus capital in trade and production. However 'this "*crisis*" is the "*signal*" of deeper underlying systemic crisis, which the switch to high finance none the less forestalls for the time being.'

In fact, the switch to high finance can do more than that: it may transform the end of material expansion into a "wonderful moment" of renewed wealth and power for its promoters and organizers, as to different extents and in different ways it has done in all four systemic cycles of accumulation.²⁴⁴

After overaccumulation crisis of material expansion period signal crisis leads only effect of a piece of dessert that is eaten in dream that is eventually ended by the replacement of "*terminal crisis*" (**T₁, T₂, T₃, and T₄** in Figure 4.3). Terminal crisis of the dominant regime of accumulation refers to end of the present systemic cycle of accumulation. In other words while *signal crisis*

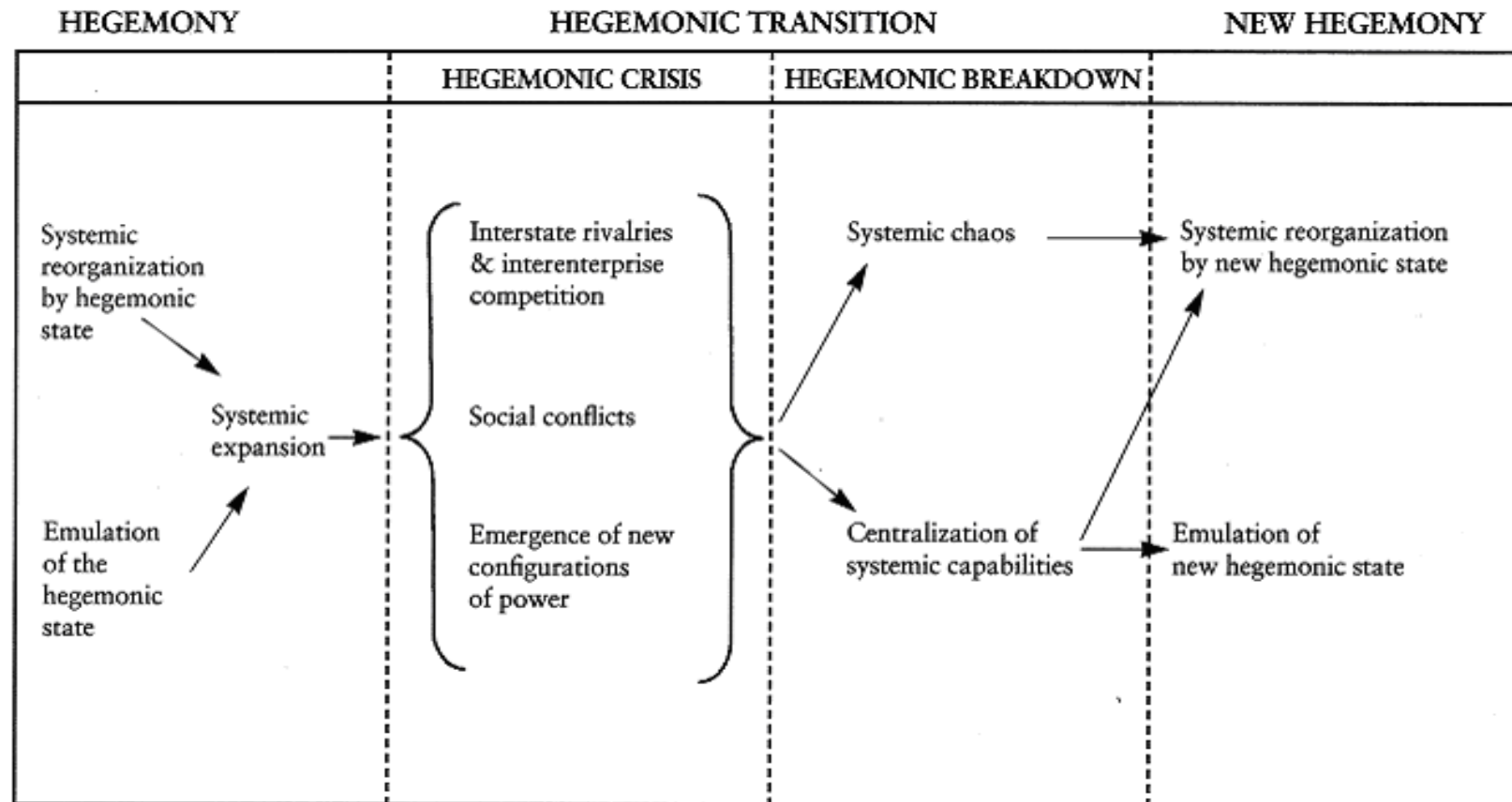
²⁴⁴ Arrighi, The Long Twentieth Century, pp.215, 221-22. Also see: Arrighi and Silver, Capitalism and World Disorder, pp.267-68.

means a systemic switch from material to financial expansion, *terminal crisis* means demise of the current regime of accumulation.²⁴⁵

As we have already known US capital has experienced its peculiar financial expansion period from around 1970 to present. We are live witnesses of this last *sign of autumn* that indicates a hegemonic transition period from US to an unknown address and possibly to an unknown systemic arrangement of capital in a *new world* out of/beyond the capitalist western society.

²⁴⁵ Ibid.

Figure 4.4 The Dynamics of Hegemonic Transitions



Source: Arrighi and Silver, *Chaos and Governance in the Modern World System*.

Figure 4.4 provides a general model for hegemonic transitions derived from some systemic analogies of the two previous and the current one periods of world-hegemonic transitions – from Dutch to British, from British to US, and finally from US to an unknown destination.

As we have seen in the previous chapters, in a systemic cycle of accumulation (MCM) the material expansion period (MC) firmly depends on complementary co-operation rather than divisive competition. In those expansion periods, leader state of the system, through a growing organizational capacity ever seen, on one hand, exercises its hegemonic privilege “by endowing the system with a wider and deeper division of labor and specialization of functions.” On the other hand, it cooperates with the separate states and supports them in their effort emulating dominant state’s path of development. Thus, their energies and resources could be mobilized in the expansion (see Figure 4.4, column 1). While all these functions of leader state seem parts of a whole structure, dialectically there is always a tension “because a wider and deeper division of labor and specialization of functions involves co-operation among the system’s units, while emulation is based on and fosters their mutual competition.”²⁴⁶ Those co-operation and positive competition processes cooperatively create golden age of the existing systemic cycle of accumulation by performing in favor of the whole system in the expansion period in which leader state of the system is at its highest position called hegemony.

Any of accumulation process could sustain forever. It emerges, expands and finally constricts; it is the law of capital accumulation because capital in a given time with its peculiar spatial fix embeds itself in a given centered geography and thus make accumulation through some given actors who has a specific capacity firmly depending on the present technological level. Although those given dynamics of capital accumulation initially act as an engine of expansion in the process of forming a systemic accumulation structure, they at the end bring expansion period to termination because

²⁴⁶ See Arrighi and Silver, *Capitalism and World Disorder*, pp.269-71.

emulation of hegemonic state by other pursuing states ceaselessly constricts the operation area for the actor's capitalistic activities. Therefore, over time depending on changing balance of power, co-operation and positive competition among the system's units disappears. That means not only end of a golden age for accumulation but also a hegemonic crisis because of relative deflation in the power of hegemonic state who dominate the system.

Hegemonic crises, as Arrighi and Silver point out, "have been characterized by three distinct but closely related processes; the intensification of interstate and inter-enterprise competition; the escalation social conflicts; and the interstitial emergence of new configurations of power"²⁴⁷ (see Figure 4.4, column 2). These *closely related processes* locate hegemonic crises at a transitional level between age of hegemony and hegemonic breakdown and systemic chaos. As *signs of autumn* for hegemonic structures, financial expansions have been integral parts of hegemonic crises. As we have already seen financial expansions emerge in the time:

when the leader of a major expansion of world trade and production which is drawing to a close reaps the fruits of its leadership in the form of a privileged access to the overabundant liquidity that accumulates in world financial markets.²⁴⁸

By changing material instruments to financial ones the declining hegemon continues to dominate the system but now in networks of high finance. Thus, it "can turn the competition for mobile capital to its advantage and thereby experience a reflation of its waning power. This reflation enables the declining hegemonic state to contain...the forces that challenge its continuing dominance."²⁴⁹

Although financial expansions seem to bring some interim solutions to hegemonic crises in favor of hegemonic state, they in fact steadily undermine

²⁴⁷ Arrighi and Silver, *Capitalism and World Disorder*, p.271.

²⁴⁸ Ibid.

²⁴⁹ Ibid.

the current hegemonic structure by widening and deepening the scope of competition and social conflicts. They are also the processes by which capital is reallocated to emergent structures that challenge the dominant structure by promising more secure and/or higher returns. In the course of time the global balance changes in favor of those challenging forces that indispensably erode the unsteady stability of existing structures. This change in balance means manifestation of breakdown of the present systemic organization.

Hegemonic breakdowns, on one hand, are conclusive periods in which systemic chaos dominates the *world* rather than currently disintegrating systemic organization that had been put into practice by the declining hegemonic power. On the other hand, they are the time when subsequent hegemonies are forged. Furthermore, hegemonic breakdowns are the highest level of cut-throat competition among *world* powers because they clearly indicate an irreversible escalation in the interstate power struggles. While “the rising hegemon acquires its decisive edge first in production, then in commerce, and then in finance”, it is a crucial point to say that “hegemony is firmly secured, at least in the past three cases, only through victory in a thirty-year-long climactic world war”; Dutch’s Thirty Years’ War of 1618-1648, British’s Napoleonic Wars of 1792-1815, and finally US’s Euro-Asian Wars of 1914-1945. In such climatic world wars “the winners’ [the subsequent hegemonic power’s] economic edge is expanded by the very process of the war itself, and the postwar interstate settlement is designed to encrust that greater edge and protect it against erosion.”²⁵⁰ Hence, these wars are not only the processes by which decisively changing balance of power in favor of the victorious subsequent hegemonic power over the previous one is manifested; they also embrace a new impending systemic structure’s nucleus whose fission in postwar days leads to emergence of immense power and great amounts of energy comes from a chain reaction of not nuclear but capitalistic fission. This is the capitalistic fission which enables restructuring of world system in postwar period under a new

²⁵⁰ Arrighi and Silver, *Chaos and Governance in The Modern World System*, pp.23-24.

hegemony through a great expansion ever seen via its peculiar rules, regimes and institutions.

By considering similarities between two past hegemonies and current US hegemony, today it seems too early mentioning on breakdown of US hegemonic leadership. Rather it seems we are witnesses of an unraveling hegemony that is exercising the first phase of its *autumn* called hegemonic crisis (see Figure 4.4, column 2). Under the following subtitle which is the last title of this chapter and this study as well, US-centred financial expansion since around 1970s shall be analyzed to make clear if US hegemony has been experienced its autumn.

4.2. Continuing Story From Past to the Future

The creative capitalistic fission in 1950s and 1960s created a far more immense power than destructive nuclear fissions in Hiroshima and Nagasaki in August 1945. It was a new world order following the Thirty Years' War of 1914-1945. However 'by the time the Second World War was over, the main contours of the new order had taken shape:

at Bretton Woods the foundation of a new monetary system had been established; at Hiroshima and Nagasaki new means of violence had demonstrated the military underpinnings of the new order; and at San Francisco new norms and rules for the legitimization of statemaking and warmaking had been laid out in the charter of the United Nations.'²⁵¹

The expansion of world *trade and production* in 1950s and 1960s was exceptional. It was a real Golden Age. To sum up exceptionality of this period in some important statistics: both unemployment and inflation in seven major industrialized countries stood at an average of only 2.8 percent. International trade had been growing even faster than output with an annual expansion of about 5 percent and direct investment abroad was increasing at an even faster rate.²⁵²

The GDP and labour productivity grew almost twice as fast as in any previous period since 1820, and there was a rapid acceleration in the rate of growth of the capital stock. The growth in the volume of postwar trade was eight times faster than in the period 1913-50 and twice as great as in the century from 1820. Globally, output of

²⁵¹ Arrighi and Silver, *Chaos and Governance in The Modern World System*, p.80-81.

²⁵² Keohane, *The Theory of Hegemonic Stability*, p. 90.

manufacturers more than quadrupled between the early 1950s and the 1970s, and world trade in manufactures grew eightfold.²⁵³

While this material expansion period of US cycle was peculiar in its growth rates, it was not only sample in the capitalist history as we have already known. In a historical sense, the expansion in world trade and production in the Age of Capital from second half of the 1840s to about the mid-1870s was also exceptional in the evolution of capitalist accumulation process. As parallel to their systemic characters in the capitalist world history both fantastic expansionary periods demonstrated two crucial features as Arrighi points out: firstly 'they were both periods of reconstitution of the global market by the world's most powerful state;' and secondly 'they both ended in a crisis of overaccumulation followed by a worldwide financial expansion.'²⁵⁴ In other words they both had similar depressive processes including overaccumulation crises by which transformations from material to financial expansions were enabled as seen in Great Depression of 1873–96 and again throughout the 1970s. Thus, in these two historical periods the *natural suspect* of transformations toward *autumn* of the current hegemonic power was overaccumulation crisis, that is, as we have seen, 'due to an accumulation of capital over and above what could be reinvested profitably in established channels of trade and production.'²⁵⁵ Thus overaccumulation crisis refers to that it brings a material expansion period to end; and finally it leads a hegemon to develop its own financialization means to get over overaccumulation crisis by becoming *empire of capital*.

²⁵³ Fouad Makki, The Empire of Capital and the Remaking of Centre-periphery Relations, Third World Quarterly, Vol 25, No 1, pp.160-61.

²⁵⁴ Giovanni Arrighi, The Global Market, Journal of Worlds System Research, Vol V, 2, Summer 1999, p.238. For more information see also Silver and Arrighi, Polanyi's "Double Movement": The Belle Époques of British and U.S. Hegemony Compared, Politics & Society, Vol. 31, No. 2, 325-355 (2003).

²⁵⁵ Giovanni Arrighi, The Global Market, p.237.

By the late 1960s and early 1970s the situation was very different than that of previous decade. In the late 1960s, the first lasting deficits of the balance of trade appeared in the US since WWII. This was obviously related to on-going catching-up by European countries and Japan. Surpluses of dollars were continuing to be accumulated in the rest of the world and, thus, the threat of conversion of dollar into gold was increasing. So, the dollar had to be devalued with respect to the gold and other major currencies.²⁵⁶ Consequently, those changing relative economic position, trade deficits and budgetary pressure especially coming from Vietnam War made the USA abandoned the Bretton Woods System in 1971, which was one of the pillars of the great expansion period. By the abandonment of gold-dollar standard the US government left the most important control mechanism on the global supply of money. 'But since there was no a viable alternative to the dollar as the principal international reserve currency and medium of exchange, the abandonment of the gold-dollar-exchange standard resulted in the establishment of a pure dollar standard.'²⁵⁷

In same period the cooperative relations among and between the main centers of capital accumulation during the great expansion period of 1950s and 1960s gradually became mutual competition. Especially Japanese and Germany that got a great success in recovering their *lost* competitive superiority have become the main challengers to the US economic supremacy. This intensification of intercapitalist competition meant 'rapidly rising prices for primary inputs: first of labor and then of energy.' The crude oil price imported by OECD had increased two fold between 1970 and 1973; and more dramatically 'in 1974 alone that same price increased threefold,

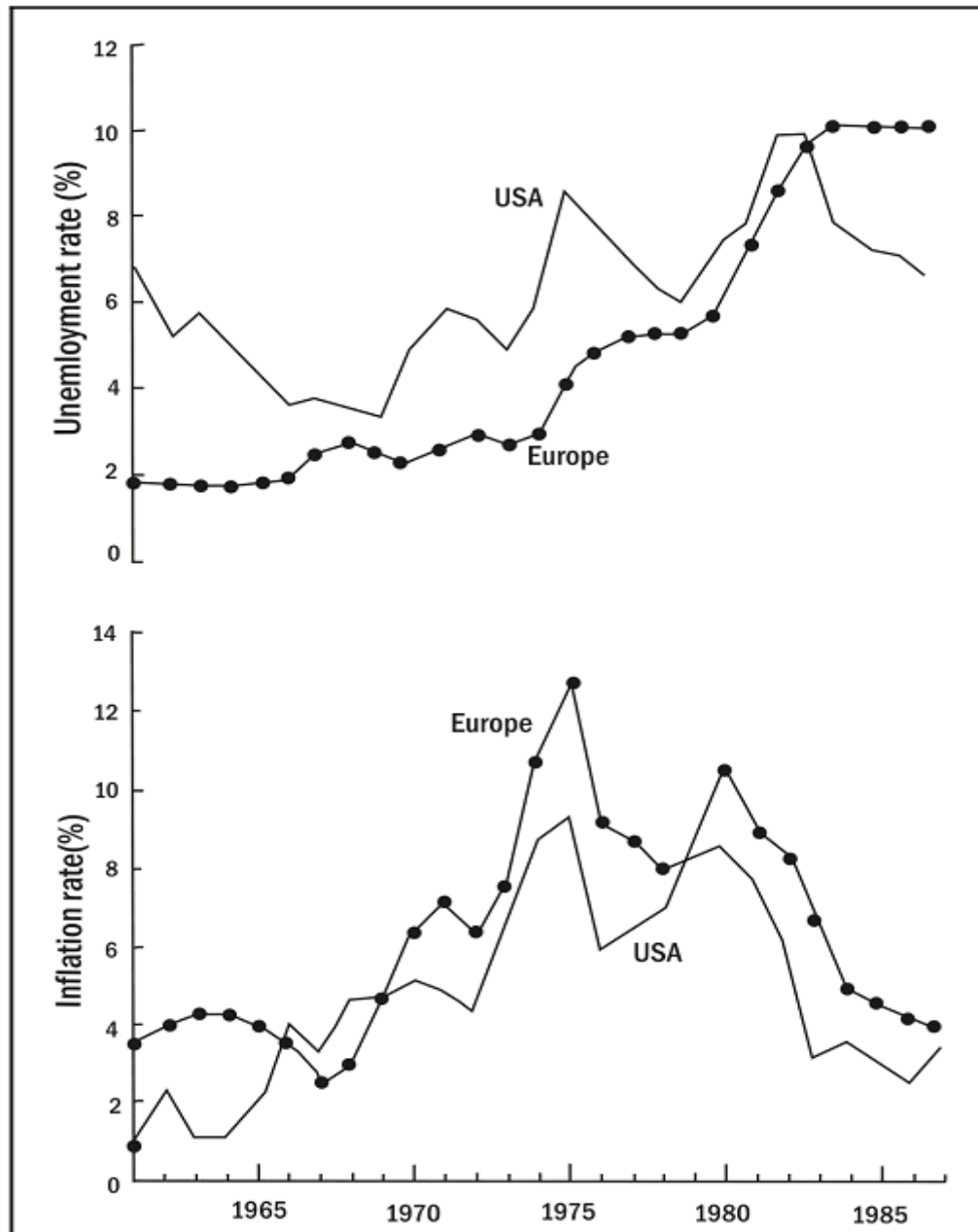
²⁵⁶ Duménil, G. and Lévy, D. (2004) 'The Neoliberal Counter-Revolution', in A. Saad-Filho and D. Johnston (2004) *Neoliberalism: A Critical Reader*. London: Pluto Press, p.2. Available at: <http://www.jourdan.ens.fr/~levy/dle2005a.htm>

²⁵⁷ Giovanni Arrighi, *The Global Market*, p. 239.

deepening further the crisis of profitability.²⁵⁸ Meanwhile US defeat in Vietnam, a far corner of the world, and her inability to prevent or counteract the oil price increases not only deeply affected her hegemonic position but also encouraged the intensifying mutual competition. Thus, during 1970s the crisis of overaccumulation including intensifying competition and rising prices of primary inputs brought the West into stagflation in which overall growth rates decreased, while inflation and unemployment rates increased (see Figure 4.5).

²⁵⁸ Giovanni Arrighi, *The Global Market*, pp. 236-37.

Figure 4.5 The Economic Crisis of the 1970s: Inflation and unemployment in the US and Europe, 1960-1987.



Source: Harvey, *A brief History of Neoliberalism*.

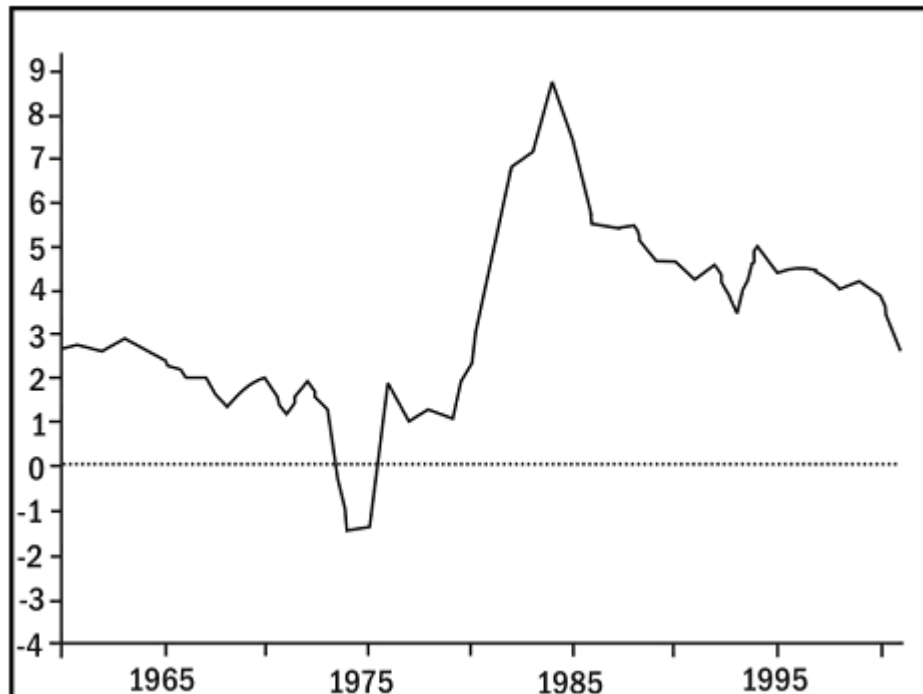
In fact, in this study, the years of 1970s have been seen as transition years for the US hegemonic cycle from material to financial expansion. Such

transitional periods, switching crises, are squeezed times for not only hegemonic power itself but also for whole system between old and new situations in other words between material and financial expansions. On one hand the capitalist agents try to make profit in the way in which they did previously, but they fail because of overaccumulation crisis. On the other hand they look for a new way, by which they can make profit by using their surplus capital, but here they need some points of reference for credibility; unfortunately this credibility can not be provided even by unraveling hegemonic power itself in those transitional periods. Similarly because of the all unfavorable situations stated above 'throughout the 1970s the diversion of capital from trade and production to financial markets failed to revive profitability and to resolve the underlying crisis of overaccumulation.' The capitalist agents in this period have not had much chance to intervene in this distressing course of capitalism. Therefore, 'the policies under these conditions do not constitute a positive strategy of capital expansion but simply seek to manage the crisis of capital.'²⁵⁹ To make clear, the real interest rates were low or even negative during the 1970s (see Figure 4.6). 'Although nominal rates of interest were rising, they were not rising fast enough to keep up with inflation, so that in the mid-1970s real interest rates plunged in to below zero.'²⁶⁰

²⁵⁹ Samir Amin The political Economy of the Twentieth Century, The monthly Review-June 2000, Volume 52, Number 2, Translated By Pascale Ghazaleh. Available at: <http://www.monthlyreview.org/600amin.htm> August 2009.

²⁶⁰ Giovanni Arrighi, The Global Market, p.238

Figure 4.6 The Real Rates of Interest of US, 1960-2001.



Source: Harvey, *A brief History of Neoliberalism*.

The emblematic year was the 1979 when 'the Federal Reserve decided to suddenly increase interest rates' that was not only harbinger of the end of the structural crises of the 1970s, but also announcement of *a new social order* called neoliberalism that's why Dumenil and Levy call it *1979 Coup*. Thanks to this Coup the gloomy situation of the 1970s changed radically, because;

the rise of interest rates in 1979 was breathtaking and put an end to the inflationary wave. In spite of the gradual decline of nominal interest rates, high real interest rates were maintained throughout the 1980s and 1990s...Obviously, such high rates are favorable to creditors, whether individual or institutional. Moreover, there were also high rates of dividends paid to shareholders. In the 1960s, the share of profits (after paying taxes and interest) distributed as dividends was approximately 30%. It gradually rose to nearly 100% at the end of the

20th century. Stock-market indexes followed up, reaching their maximum in 2000.²⁶¹

While it was seen as *new social order* that made financial investments and financial activities more attractive, in fact *there was no new thing under the sun*. Here, it is very important point to be emphasized that is the similarity between the driving forces and motives of 'the present US-centred financial expansion, not just with the British-centred financial expansion of the late nineteenth and early twentieth centuries, as many observers have noted, but also with the Dutch-centred financial expansion of the mid-eighteenth century'²⁶² and the Genoese-centred financial expansion of the mid-sixteenth and early seventeenth centuries. As we have already seen in the other previous three systemic cycles of accumulation this *new social order* called neoliberalism was just a label for finance capitalism or in other words financialization that, in general, refers to 'the increasing role of financial motives, financial markets, financial actors, financial institutions and financial elites in the operation of the economy and its governing institutions both at the national and international levels.'²⁶³ Truthfully, the *1979 Neoliberal Coup* was a breaking point for the US-centred accumulation cycle through which completion of transition from material to financial expansion was declared; and thus overaccumulated capital under the threat of devaluation began to flow into the new areas backed or created by neoliberal policies. Hence, as all three previous ones did, the financialization of the late twentieth century also became 'the central part of the social structure of accumulation we call global neoliberalism.'²⁶⁴

²⁶¹ Duménil, G. and Lévy, D. (2004) 'The Neoliberal Counter-Revolution', p.5.

²⁶² Arrighi and Silver, *Capitalism and World Disorder*, p. 272.

²⁶³ Gerald A. Epstein, *Financialization and the World Economy*, Edward Elgar Publishing, 2002, p. 3. Quoted by William K., Tabb, *The Centrality of Finance*, p.2.

²⁶⁴ William K. Tabb, *The Centrality of Finance*, *Journal of World-Systems Research*, Volume XIII, Number 1, p.3.

Neoliberalism is usually 'described as the ideology of the market and private interests as opposed to state intervention.' It is 'a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices.'²⁶⁵ Historically, it refers to contemporary *ideology* of accumulation coinciding with financialization of US-centred accumulation cycle in which 'financial flows became the primary means of articulating the capitalistic logic of power. But once the Pandora's Box of finance capital had been opened, the pressure for adaptive transformation in state apparatuses also increased.' The leading capitalist agents were United States and Britain exercising and guiding the global neoliberalization process. 'Step by step many states moved to adopt neoliberal policies. Other states either sought to emulate the leading capitalist powers or were forced to do so through structural adjustment policies imposed by the IMF.'²⁶⁶ By the same token 'the international institutions of Keynesianism, IMF and the World Bank, also survived the transition to neoliberalism, but, like the central banks of capitalist countries, the targets of their activity were redirected. They became the agents of the diffusion of the neoliberal order throughout the planet.'²⁶⁷ Thus, after 'the 1973–75 over-accumulation crisis, the post-World War II US-dominated regime of expanded reproduction succumbed to the domination of finance capital which secured adaptive transformation of state structures everywhere

²⁶⁵ Harvey, *A Brief History of Neoliberalism*, Oxford, 2005, p. 2.

²⁶⁶ Harvey, *The New Imperialism*, p. 184.

²⁶⁷ G. Duménil, D. Lévy, "The Nature and Contradictions of Neoliberalism", 2004, in L. Panitch, C. Leys, A. Zueque, M. Konings, *The Globalization Decade. A Critical Reader*, The Merlin Press, Fernwood Publishing : London, p. 17. Available at: <http://www.jourdan.ens.fr/levy/dle2004k.pdf> August 2009.

into neo-liberal apparatuses of 'accumulation by dispossession.'²⁶⁸ As Dumenil and Levy point out neoliberalism's main characteristics include:

a new discipline of labor and management to the benefit of lenders and shareholders; the diminished intervention of the state concerning development and welfare; the dramatic growth of financial institutions; the implementation of new relationships between the financial and nonfinancial sectors to the benefit of the former; a new legal stand in favor of mergers and acquisitions; the strengthening of central banks and the targeting of their activity toward price stability, and the new determination to drain the resources of the periphery toward the center. Moreover, new aspects of globalization emerged with neoliberalism, for example the unsustainable weight of the debt of the periphery and the devastations caused by the free international mobility of capitals. The major feature of the contemporary phase of neoliberalism is, however, its gradual extension to the rest of the planet that is its own globalization.²⁶⁹

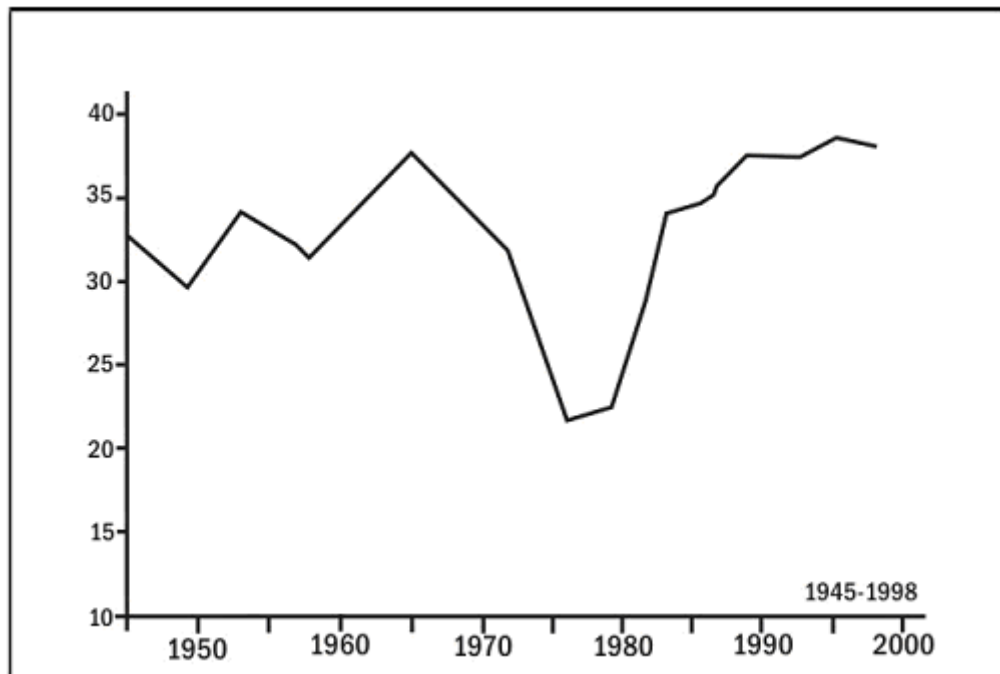
In sum, the notion of neoliberalism just indicates a historical phenomenon, as Edwardian Belle Epoque of the British cycle after Great Depression, used by the financialization process of the last cycle of accumulation under the US hegemony in its contemporary design. As we have already seen each systemic cycles of historical capitalism- Genoese, Dutch, British, and finally US- has experienced its own two successive harvest times and between them a depressive transitional period that includes switching crises created by the uneasy overaccumulated capital: the first harvest time was a particular *Golden Age* of material expansion, and the second was an *unprecedented Belle Epoque* of financial expansion that, in fact, means the *sign of autumn* for the current hegemonic power.

²⁶⁸ Ganesh K. Trickhur, The New Imperial Conjuncture and Alternative Futures for Twenty-first Century Global Political Economy, Globalizations, May 2005, Vol. 2, No. 1, pp. 169.

²⁶⁹ Duménil, G. and Lévy, D. (2004) 'The Neoliberal Counter-Revolution', p.1-2.

Thus, the neoliberal radical changes sparked by the FED's 1979 Coup made the world again *a better place* for capital and capitalist agents as well. 'All of sudden capital became a scarce good again, real interest rates shot up,(see Figure 4.6), and returns to capital in financial markets rose to unprecedented levels. Once again, despite 'a further slowdown in the rate growth of world production, a major deterioration in relations between the two superpowers and a new escalation in their armament race,'²⁷⁰ everything seemed right for propertied classes who managed to regain their holdings by surmounting difficulties of the switching crises that enabled the transition from material to financial means during the 1970s onwards. (see Figure 4.7)

Figure 4.7 Share of Total Wealth Held by the Top 1% of Wealth Holders: (%)
US Households (Wealth includes real estate (housing), securities and cash, and consumer durables).



Source: Dumenil and Levy, *Nature and Contradictions of Neoliberalism*.

²⁷⁰ Giovanni Arrighi, *The Global Market*, p.238.

Throughout the 1980s and 1990s, in sum, the financial markets, as vehicles for the most mobile form of capital, played a leading role in financialization of the US-centred cycle of accumulation. Thus, the deepening and widening 'financial markets that had already occurred by this time- their domestic and international growth, their increasingly multi-dimensional and innovative ties to business, and their penetration of consumer savings- were central to this new form of social rule' called neoliberalism. Here, 'the increased liquidity of credit and its contribution to the management of risk' was the integral part of this new social rule:

Financial markets, especially through the invention of a large number of financial instruments called derivatives (swaps, options and futures not based on the trade in physical products), put a price on the various dimensions of risk associated with exchange rates, trade, long vs. short-term investments, political developments, etc. This vastly extended the basis for comparing the performance of assets not only across space and time but also across the various dimensions of risk themselves. All this has become central to the dynamics of competition and accumulation in global capitalism.'²⁷¹

By benefiting from the 'growing and systemic power of finance and financial engineering',²⁷² the United States has 'succeeded in mobilizing resources in global financial markets'. This success not only enabled to the US 'to sustain a long domestic economic expansion and a spectacular boom in New York stock exchange', but also led to the belief that 'America's back!'.²⁷³ It was Belle Époque of the American Hegemony whose hegemonic predecessors had experienced before. As far as the past three cycles and also current course of the present US cycle have been concerned, as Arrighi suggests such kind of Belle Époque were nothing more than euphoria for the present hegemonic power who performs its own financial expansion-*sign of autumn*. Thus, US-centred capitalist euphoria reached new heights by the

²⁷¹ Leo Panitch and Sam Gindin, *Finance and American Empire*, Social Register, 2005, p. 64 .

²⁷² William K. Tabb, *The Centrality of Finance*, p.2.

²⁷³ Arrighi and Silver , *Capitalism and World Disorder*, p.273.

disintegration of Soviet empire in Eastern Europe at the end of the 1980s, and then of the USSR in 1991. In the past, as in the present, this euphoria has made the present declining hegemons blind by bringing about a great reflation in their power:

the reflation came late and was minor in the case of the Dutch; it came early and was major in the case of the British. But in both cases these power revivals and the financial expansions that underlay them ended with the complete breakdown of the decaying hegemonic order some 30-40 years after they had begun.²⁷⁴

That was this euphoric blindness that, on one hand, 'led the ruling groups of these states to mistake the 'autumn' for a new 'spring' of their hegemonic power',²⁷⁵ on the other hand, led them to introduce some contemporary globalist tendencies and prophecies: the Grand Tour of the late eighteenth and early nineteenth centuries²⁷⁶ made the world had to be comprehensible for the upper-class European men, in the late nineteenth century Jules Verne's English hero made his own contemporary *grand tour* Around the World in Eighty Days proclaimed that 'the global village was already a reality'.²⁷⁷ While it has not experienced its own breakdown yet, the similar euphoric blindness that creates sense of a new spring was evident in the post-cold war years of the US hegemony. The emblematic fellow of this last euphoric period was Japanese-American Francis Fukuyama. In his best known book *The End of The History and The Last Man* Fukuyama proclaimed not only completion of the spatial occupation of Jules Verne's

²⁷⁴ Arrighi and Silver, *Capitalism and World Disorder*, pp.272-273.

²⁷⁵ Ibid., 273.

²⁷⁶ Especially in the late eighteenth-early nineteenth centuries' Europe, it was fashionable among the upper class of Europeans to take a Grand Tour of the world, in fact the Eurocentric world including Western Europe and perhaps North Africa. It was seen as a crucial step in one's life to round out his education.

²⁷⁷ Samir Amin, *The political Economy of the Twentieth Century*.

'global village' by the historical capitalism, but also the final occupation of human history by the liberal democracy that meant the end point of the man's social evolution and the final form of human government.²⁷⁸

The reconstruction process through higher interest rates in the early 1980s has succeeded in restoring American hegemony with a spectacular boom in the central economies led by the US economy during the following two decades. However, as a result of the uneven geographical development of capitalism the story of the periphery has been different than that of the center. In fact the story of the periphery came from the dark side of the moon. As Dumenil and Levy point out that 'the further from the center, the more damaging the transition toward neoliberalism was.' Thus, because of the higher interest rates, 'jumped from negative rates to rates of approximately 2%', the spectacular boom in the economy of the center meant terrible boom in the debt of the periphery that led several crises ranging from recurrent crises of Latin America, Africa to the massive East Asian crisis of 1997-98. It was a process of accumulation by dispossession but in global scale. 'In 2000, the debt of the countries of the periphery was four times larger than in 1980. The other side of the coin was obviously the large flows of interests, transferred from these countries to the banks of the center, notably in the United States.'²⁷⁹

Meanwhile, most importantly, because 'the financial expansion itself seems to rest on increasingly precarious grounds'²⁸⁰, during the financialization process of the 1980s and 1990s 'the shift to a greater reliance on markets, and especially volatile financial markets, has meant that the advanced

²⁷⁸ See Fukuyama, Francis, *Tarihin Sonu ve Son İnsan*, translated by Zülfü Dicleli, Simavi Yayınları, 1992.

²⁷⁹ Duménil, G. and Lévy, D. (2004) 'The Neoliberal Counter-Revolution', p.9.

²⁸⁰ Arrighi and Silver, *Capitalism and World Disorder*, p.273.

capitalist countries themselves have not been immune from crises.’²⁸¹ These crises were the collapse of the Saving and Loan industry and stock market crash in the US in the latter 1980s, the exchange rate crisis in Europe in the early 1990s, Japan’s chronic deflation throughout 1990s, and the bursting of the American financial bubble in 2000-01.

Especially the crisis in 2000-01 when the ‘New Economy’ bubble of the financial globalization of the 1990s burst was important. The reflation in US power on *precarious grounds* of financial expansion was ‘not as great as generally assumed by US elites...Even the most enthusiastic supporters of interstate competition in globally integrated financial markets have begun to fear that financial globalization is turning into a brakeless train wreaking havoc.’ Source of their concern was ‘mounting backlash against the effects of such a destructive force’ that most importantly enabled ‘the rise of a new brand of populist politicians fostered by the mood of helplessness and anxiety that is taking hold even of wealthy countries.’ As ‘a typical feature of past financial expansions’ this kind of backlash ‘announces that the massive redistribution of income and wealth on which the expansion rests has reached, or is about to reach its limits.’ And naturally ‘once the redistribution can no longer be sustained economically, socially and politically, the financial expansion is bound to end.’²⁸² Thus, the bursting of the New Economic bubble in 2000-01 was a breaking point that mounted backlash to some extent that neo-conservative Bush government came to power only eight months before the 11 September 2001 Twin Towers Attack. To determine an emblematic phenomenon it can be pointed out that ‘the real break with the 1990s occurred only in 2001’ when the Bush Administration responded to the events of September 11 by embracing a new imperial programme—that of

²⁸¹ Leo Panitch and Sam Gindin, *Finance and American Empire*, p. 69-70.

²⁸² Arrighi and Silver, *Capitalism and World Disorder*, p.273.

the Project for a New American Century.²⁸³ In fact, as Arrighi points out, the bursting of the New Economy bubble and soon after launching of the Project for a New American Century in 2001 may be early signs heralding ‘the financial expansion and concomitant reflation of US power have already reached their limits.’²⁸⁴

As parallel to the execution of the complex policies and actions in accordance with the Project for a New American Century, the following years-from 2001 onwards- have been experienced some dramatic changes, because, as generally agreed, September 11 changed the course of the history. In fact, as George Soros points out, it was not a new project that has been desired to be carried out by the Neoconservatives in the post September 11 days. Actually, neoconservatives ‘publicly called for the invasion of Iraq as early as 1998. Their ideas originated in the Cold War and were further elaborated in the post-Cold War era.’ But it was needed to wait to take action until the end of the ‘New Economy’ bubble of the financial globalization. Thus, while the bursting of the New Economic bubble provided political and economic reasons for the Project for a New American Century, the September 11 granted the military reason to the passionate neoconservatives:

Before September 11 the ideologues were hindered in implementing their strategy by two considerations: George W. Bush did not have a clear mandate (he became President by virtue of a single vote in the Supreme Court), and America did not have a clearly defined enemy that would have justified a dramatic increase in military spending. September 11 removed both obstacles. President Bush declared war on terrorism, and the nation lined up behind its President. Then the Bush Administration proceeded to exploit the terrorist attack for its own purposes. It fostered the fear that has gripped the country in order to keep the nation united

²⁸³ Arrighi, *Hegemony Unravelling I*, p.23.

²⁸⁴ Arrighi and Silver, *Capitalism and World Disorder*, p.273.

behind the President, and it used the war on terrorism to execute an agenda of American supremacy. That is how September 11 changed the course of history.²⁸⁵

That was the neoconservative Project that has desired to enhance United States' strategic position in south-central Eurasia by gradual increase of American military power in the region. As Klare suggests explaining this new age 'three factors are paramount: terrorism, oil, and a revival of classical geopolitics.'²⁸⁶ In the first decade of the twenty first century it has been seemed that 'geopolitics has returned with a vengeance.' This reality offers a clear message that was forgotten in the financial globalization of the 1990s: 'The world, while changed, still works by a more traditional set of rules and impulses.'²⁸⁷ As we have known at least in the past experiences, in financial expansion periods these traditional rules and impulses, work in the conditions of increasing cut-throat competition and geopolitical rivalry among the main powers.

Only after about eight years from the financial crisis of 2000-2001 and seven years and four days from the September 11, 2001, on Monday, September 15, 2008, Lehman Brothers that was one of the main market-makers in commercial paper and a major issuer was allowed to go into bankruptcy. 'Within days the entire financial system suffered what amounted to cardiac arrest and had to be put on artificial life support. The effect on the global economy was the equivalent of the collapse of the banking system during the Great Depression.'²⁸⁸ To paraphrase Soros, the crisis of 2008 was much bigger than a subprime mortgage crisis or a housing bubble. In fact, it

²⁸⁵ George Soros, The Bible of American Supremacy, The Atlantic Monthly, December 2003, p.1-2.

²⁸⁶ Michael T. Klare, The Empire's New Frontiers, Current History, November 2003, p.385.

²⁸⁷ Harvey Sicherman, The Revival of Geopolitics, The Intercollegiate Review, Spring 2002, p.17.

²⁸⁸ George Soros, The Crash of 2008 and What it Means, Publicaffairs, Revised Edition, 2009, p.157.

brought the US-centred world the reversal point in a process of credit expansion that had been at work ever since World War II and turned into a super-bubble in the global financialization of the last two decades of the twentieth century.²⁸⁹ Having descends and ascends or in other words bubbles and crises the last US-centred financial expansion is unsustainable as the past financial expansions were. For this reason, As Arrighi foresaw, it has been indispensable that the current financial expansion would eventually lead to a terminal crisis, because its bubbles have been as unsustainable as they have been in the past. Thus the global financial crisis of 2008 was one of what Arrighi calls *terminal crisis* that leads to hegemonic breakdown. Therefore, 'with the bursting of the housing bubble [on 15 September 2008], what we are observing now is, quite clearly, the terminal crisis of US financial centrality and hegemony.'²⁹⁰

²⁸⁹ George Soros, *The Crash of 2008 and What it Means*, p.158.

²⁹⁰ Giovanni Arrighi, *The Winding Paths of Capital*, Interview by David Harvey, p.90.

CONCLUSION

Today China means more than China. That is not only because the magnificent steady growth rates of the '*China Circle*' (mainland China, Singapoure, Hong Kong and Taiwan) for about two decades- at an average of about 10 percent since 1991, but also and more importantly because accompanying unraveling US-centred accumulation cycle. Obviously, 'US-centred financial expansion has been accompanied by major shift of the global economy's centre of gravity from North America to East Asia.' As we have already known, 'the global financial expansion of the last twenty years or so is neither a new stage of world capitalism nor the harbinger of a coming hegemony of global markets.'²⁹¹ In fact, the analogues between the current global financial expansion of the US-centred cycle and of the past hegemonic transitions-Dutch-to-British and British-to-US- make us to consider that we are in the midst of the hegemonic crisis which would eventually lead to hegemonic breakdown. The new destination for accumulation would, most probably, be the East Asia under the leadership of China, because currently it seems that it is the major candidate providing a full opportunity, in other words a new and satisfactory geographical and social complex, to the global surplus capital creating 'a new spatial fix of greater scale and scope [that] enables the system to experience another period of material expansion.'²⁹²

If the candidate(s) for global supremacy in after-US-cycle period was only western power(s) rather than East Asia, it would be easier to incorporate it into this analysis as a possible sample for coming cycle of accumulation in the historical capitalism. However, it is East Asia and 'the rise of East Asia to

²⁹¹ Arrighi and Silver, *Capitalism and World Disorder*, pp.273-4.

²⁹² Arrighi, *The Winding Paths of Capital*, p.93.

most dynamic region of the global economy and center of accumulation poses major challenges to our understanding of the modern world.²⁹³

In fact East Asia is 'a region that unlike all previous organizing centres of world capitalism lies outside the historical boundaries of Western civilization.'²⁹⁴ In other words the East Asian region is out of *European* man's hegemony by which world capitalism has been performing its dominance as a motor of accumulation since around thirteenth century. On the other hand, it is clear that East Asian region has gradually become a global power that can act as a determiner in global affairs. It seems whether the non-western East Asian region will become a hegemonic power or not, the rise of a non-western power in global area would change the rules depending on European system of states. As Janet Abu-Lughod draws our attention that 'we may have become so fixated on "studying the persistence and evolution of the 'modern' world-system that we are unprepared to understand what we sense may be its break-up or at least its radical transformation.'²⁹⁵

As it has been argued before as a result of the evolutionary pattern of world capitalism each hegemonic transition has led to a new hegemonic structure larger in scale and scope, and thus each of which 'resulted in a drastic simplification of the map of world power.' In the transition from Dutch to British hegemony city-states and proto-nation states 'were squeezed out of European politics by the emergence of powerful empire-building national states.' In same course, in the transition from British to US hegemony empire-building national states were 'squeezed out of world politics by the

²⁹³ Giovanni Arrighi, Takeshi Hamashita and Mark Selden, *The Rise of East Asia in World Historical Perspective*, Fernand Braudel Center, 1997. Available at: <http://fbc.binghamton.edu/arhamsel.htm> August 2009.

²⁹⁴ Arrighi and Silver, *Capitalism and World Disorder*, p.277.

²⁹⁵ Janet Abu-Lughod, *Restructuring the Premodern World System*, review, (Fernand Braudel Center) 13, 1990, p.281-282. Quoted by Arrighi and Silver, *Chaos and Governance in The Modern World System*, p.20.

emergence of two-continent sized superpowers that had formed on the outer perimeter of the European-centered world system.²⁹⁶ This evolutionary pattern of historical capitalism shows three important points: firstly, it reveals that the current crisis of state sovereignty is not a new thing. Since establishment of the modern interstate system in 1648 by the Treaty of Westphalia that guaranteed the sovereign equality of the members of the system states, the crisis of sovereignty has emerged three times as parallel to hegemonic crises. Secondly, as result of the evolutionary pattern each crisis has led to more erosion in the state sovereignty than previous one.

As the system became global through the granting of legal sovereignty to an increasing number and variety of states, most states lost the factual sovereignty that previously had been guaranteed by a more balanced distribution of systemic capabilities. Under British hegemony such a guarantee became somewhat of a fiction; under US hegemony it was discarded even as a fiction.²⁹⁷

Finally and most importantly, elimination of individualistic sovereign states and their spatial barriers would 'require a shift to different rules of the global game [among newly established different system units], or at least, an end to the rules Europe introduced in the sixteenth century.'²⁹⁸ Thus, as a consequence, descending Westphalian system of states accompanying East Asian ascend indicates that the future would be different than what individualist European agents has built since thirteenth century.

²⁹⁶ Arrighi and Silver, *Chaos and Governance in The Modern World System*, p.275.

²⁹⁷ Ibid.

²⁹⁸ Janet, Abu-Lughod, *Before European Hegemony: The World System A.D. 125-135*. New York 1989: Oxford University Press, p. 370-371. Quoted by Arrighi and Silver, *Chaos and Governance In The Modern World System*, p.20.

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