The Long Twentieth Century

Money, Power, and the Origins of Our Times

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a last-minute check of references and quotations. With greater reason than is customary, I take full responsibility for what remains unfixed and unchecked.

Finally, a special thanks goes to my son Andrea. When I began this work, he was about to enter high school. By the time I was writing the last draft, he had completed his *tesi di laurea* in philosophy at the Universita' Statale in Milan. Throughout, he was truly the best of sons. But as this work was drawing to a close, he had become also an invaluable editorial adviser. If the book finds any readership outside the historical and social science professions, I owe it largely to him.

GIOVANNI ARRIGHI
March 1994

Introduction

Over the last quarter of a century something fundamental seems to have changed in the way in which capitalism works. In the 1970s, many spoke of crisis. In the 1980s, most spoke of restructuring and reorganization. In the 1990s, we are no longer sure that the crisis of the 1970s was ever really resolved and the view has begun to spread that capitalist history might be at a decisive turning point.

Our thesis is that capitalist history is indeed in the midst of a decisive turning point, but that the situation is not as unprecedented as it may appear at first sight. Long periods of crisis, restructuring and reorganization, in short, of discontinuous change, have been far more typical of the history of the capitalist world-economy than those brief moments of generalized expansion along a definite developmental path like the one that occurred in the 1950s and 1960s. In the past, these long periods of discontinuous change ended in a reconstitution of the capitalist world-economy on new and enlarged foundations. Our investigation is aimed primarily at identifying the systemic conditions under which a new reconstitution of this kind may occur and, if it does occur, what it may look like.

Changes since about 1970 in the way capitalism functions locally and globally have been widely noted; though the precise nature of these changes is still a matter of some debate. But that they amount to something fundamental is the common theme of a rapidly growing literature.

There have been changes in the spatial configuration of processes of capital accumulation. In the 1970s the predominant tendency appeared to be towards a relocation of processes of capital accumulation from high-income to low-income countries and regions (Fröbel, Heinrichs, and Kreye 1980; Bluestone and Harrison 1982; Massey 1984; Walton 1985). In the 1980s, in contrast, the predominant tendency appeared to be towards the recentralization of capital in high-income countries and regions (Gordon 1988). But whatever the direction

of the movement, the tendency since 1970 has been towards greater geographical mobility of capital (Sassen 1988; Scott 1988; Storper and Walker 1989).

This has been closely associated with changes in the organization of processes of production and exchange. Some authors have claimed that the crisis of "Fordist" mass production – based on systems of specialized machines, operating within the organizational domains of vertically integrated, bureaucratically managed, giant corporations – has created unique opportunities for a revival of systems of "flexible specialization" – based on small-batch craft production, carried out in small and medium-sized business units coordinated by market-like processes of exchange (Piore and Sable 1984; Sable and Zeitlin 1985; Hirst and Zeitlin 1991). Others have focused on the legal regulation of income-generating activities and have noted how the ever-increasing "formalization" of economic life – that is, the proliferation of legal constraints on the organization of processes of production and exchange – has called forth the opposite tendency towards "informalization" – that is, a proliferation of income-generating activities that bypass legal regulation through one kind or another of "personal" or "familial" entrepreneurialism (Lomnitz 1988; Portes, Castells, and Benton 1989; Feige 1990; Portes 1994).

Gramsci

Partly overlapping this literature, numerous studies have followed in the footsteps of the French "regulation school" and have interpreted current changes in the mode of operation of capitalism as a structural crisis of what they call the Fordist–Keynesian "regime of accumulation" (for a survey, see Boyer 1990; Jessop 1990; Tickell and Peck 1992). This regime is conceptualized as constituting a particular phase of capitalist development characterized by investments in fixed capital that create the potential for regular increases in productivity and mass consumption. For this potential to be realized, adequate governmental policies and actions, social institutions, norms and habits of behavior (the "mode of regulation") were required. "Keynesianism" is described as the mode of regulation that enabled the emergent Fordist regime fully to realize its potential. And this in turn is conceived of as the underlying cause of the crisis of the 1970s (Aglietta 1979b; De Vroey 1984; Lipietz 1987; 1988).

By and large, "regulationists" are agnostic as to what the successor of Fordism–Keynesianism might be, or indeed as to whether there will ever be another regime of accumulation with an appropriate mode of regulation. In a similar vein, but using a different conceptual apparatus, Claus Offe (1985) and, more explicitly, Scott Lash and John Urry (1987) have spoken of the end of "organized capitalism" and of the emergence of "disorganized capitalism." The central feature of

"organized capitalism" – the administration and conscious regulation of national economies by managerial hierarchies and government officials – is seen as being jeopardized by an increasing spatial and functional deconcentration and decentralization of corporate powers, which leaves processes of capital accumulation in a state of seemingly irremediable "disorganization."

Taking issue with this emphasis on the disintegration rather than coherence of contemporary capitalism, David Harvey (1989) suggests that, in fact, capitalism may be in the midst of a "historical transition" from Fordism–Keynesianism to a new regime of accumulation, which he tentatively calls "flexible accumulation." Between 1965 and 1973, he argues, the difficulties met by Fordism and Keynesianism in containing the inherent contradictions of capitalism became more and more apparent: "On the surface, these difficulties could best be captured by one word: rigidity." There were problems with the rigidity of long-term and large-scale investments in mass production systems, with the rigidity of regulated labor markets and contracts, and with the rigidity of state commitments to entitlement and defense programs.

> Behind all these specific rigidities lay a rather unwieldy and seemingly fixed configuration of political power and reciprocal relations that bound big labor, big capital, and big government into what increasingly appeared as a dysfunctional embrace of such narrowly defined vested interests as to undermine rather than secure capital accumulation. (Harvey 1989: 142)

The US and British governments' attempt to maintain the momentum of the post-war economic boom through an extraordinarily loose monetary policy met with some success in the late 1960s but backfired in the early 1970s. Rigidities increased further, real growth ceased, inflationary tendencies got out of hand, and the system of fixed exchange rates, which had sustained and regulated the post-war expansion, collapsed. Since that time, all states have been at the mercy of financial discipline, either through the effects of capital flight or by direct institutional pressures. "There had, of course, always been a delicate balance between financial and state powers under capitalism, but the breakdown of Fordism–Keynesianism evidently meant a shift towards the empowerment of finance capital vis-à-vis the nation state" (Harvey 1989: 145, 168).

This shift, in turn, has led to an "explosion in new financial instruments and markets, coupled with the rise of highly sophisticated systems of financial coordination on a global scale." It is this "extraordinary efflorescence and transformation in financial markets"

that Harvey, not without hesitation, takes as the real novelty of capitalism in the 1970s and 1980s and the key feature of the emerging regime of "flexible accumulation." The spatial reshuffling of processes of production and accumulation, the resurgence of craft production and of personal/familial business networks, the spread of market-like coordinations at the expense of corporate and governmental planning – all, in Harvey's view, are different facets of the passage to the new regime of flexible accumulation. However, he is inclined to see them as expressions of the search for financial solutions to the crisis tendencies of capitalism (Harvey 1989: 191–4).

Harvey is fully aware of the difficulties involved in theorizing the transition to flexible accumulation – assuming that that is what capitalism is actually experiencing – and points to several "theoretical dilemmas."

> Can we grasp the logic, if not the necessity, of the transition? To what degree do past and present theoretical formulations of the dynamics of capitalism have to be modified in the light of the radical reorganizations and restructurings taking place in both the productive forces and social relations? And can we represent the current regime sufficiently well to get some grip on the probable course and implications of what appears to be an ongoing revolution? The transition from Fordism to flexible accumulation has . . . posed serious difficulties for theories of any sort. . . . The only general point of agreement is that something significant has changed in the way capitalism has been working since about 1970. (Harvey 1989: 173)

The questions that have informed this study are similar to Harvey's. But the answers are sought in an investigation of current tendencies in the light of patterns of recurrence and evolution, which span the entire lifetime of historical capitalism as a world system. Once we stretch the space–time horizon of our observations and theoretical conjectures in this way, tendencies that seemed novel and unpredictable begin to look familiar.

More specifically, the starting point of our investigation has been Fernand Braudel's contention that the essential feature of historical capitalism over its *longue durée* – that is, over its entire lifetime – has been the "flexibility" and "eclecticism" of capital rather than the concrete forms assumed by the latter at different places and at different times:

> Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and *adaptation*. If there is, as I believe, a certain unity in capitalism, from thirteenth-century Italy to the present-day West, it is here above all that such unity must be located and observed. (Braudel 1982: 433; emphasis in the original)

In certain periods, even long periods, capitalism did seem to "specialize," as in the nineteenth century, when it "moved so spectacularly into the new world of industry." This specialization has led "historians in general . . . to regard industry as the final flowering which gave capitalism its 'true' identity." But this is a short-term view:

> [After] the initial boom of mechanization, the most advanced kind of capitalism reverted to eclecticism, to an indivisibility of interests so to speak, as if the characteristic advantage of standing at the commanding heights of the economy, today just as much as in the days of Jacques Coeur (the fourteenth-century tycoon) consisted precisely of *not* having to confine oneself to a single choice, of being eminently adaptable, hence non-specialized. (Braudel 1982: 381; emphasis in the original; translation amended as indicated in Wallerstein 1991: 213)

It seems to me that these passages can be read as a restatement of Karl Marx's general formula of capital: MCM′. Money capital (M) means liquidity, flexibility, freedom of choice. Commodity capital (C) means capital invested in a particular input–output combination in view of a profit. Hence, it means concreteness, rigidity, and a narrowing down or closing of options. M′ means *expanded* liquidity, flexibility, and freedom of choice.

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

This second reading is implicit in Braudel's characterization of "financial expansion" as a symptom of maturity of a particular capitalist development. In discussing the withdrawal of the Dutch from commerce in the middle of the eighteenth century to become "the bankers of Europe," Braudel suggests that such a withdrawal is a recurrent world-systemic tendency. The same tendency had earlier been in evidence in fifteenth-century Italy, when the Genoese capitalist oligarchy switched

from commodities to banking, and in the latter half of the sixteenth century, when the Genoese *nobili vecchi*, the official lenders to the king of Spain, gradually withdrew from commerce. Following the Dutch, the tendency was replicated by the English in the late nineteenth and early twentieth centuries, when the end of "the fantastic venture of the industrial revolution" created an oversupply of money capital (Braudel 1984: 242–3, 246).

After the equally fantastic venture of so-called Fordism–Keynesianism, US capital followed a similar path in the 1970s and 1980s. Braudel does not discuss the financial expansion of our day, which gained momentum after he had completed his trilogy on *Civilization and Capitalism*. Nevertheless, we can readily recognize in this latest "rebirth" of finance capital yet another instance of that reversal to "eclecticism" which in the past has been associated with the maturing of a major capitalist development: "[Every] capitalist development of this order seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: it [is] *a sign of autumn*" (Braudel 1984: 246; emphasis added).

Marx's general formula of capital (MCM′) can therefore be interpreted as depicting not just the logic of individual capitalist investments, but also a recurrent pattern of historical capitalism as world system. The central aspect of this pattern is the alternation of epochs of material expansion (MC phases of capital accumulation) with phases of financial rebirth and expansion (CM′ phases). In phases of material expansion money capital "sets in motion" an increasing mass of commodities (including commoditized labor-power and gifts of nature); and in phases of financial expansion an increasing mass of money capital "sets itself free" from its commodity form, and accumulation proceeds through financial deals (as in Marx's abridged formula MM′). Together, the two epochs or phases constitute a full *systemic cycle of accumulation* (MCM′).

Our investigation is essentially a comparative analysis of successive systemic cycles of accumulation in an attempt to identify (1) patterns of recurrence and evolution, which are reproduced in the current phase of financial expansion and of systemic restructuring; and (2) the anomalies of this current phase of financial expansion, which may lead to a break with past patterns of recurrence and evolution. Four systemic cycles of accumulation will be identified, each characterized by a fundamental unity of the primary agency and structure of world-scale processes of capital accumulation: a Genoese cycle, from the fifteenth to the early seventeenth centuries; a Dutch cycle, from the late sixteenth century through most of the eighteenth century; a British cycle, from the latter half of the eighteenth century through the early twentieth

century; and a US cycle, which began in the late nineteenth century and has continued into the current phase of financial expansion. As this approximate and preliminary periodization implies, consecutive systemic cycles of accumulation overlap, and although they become progressively shorter in duration, they all last longer than a century: hence the notion of the "long century," which will be taken as the basic temporal unit in the analysis of world-scale processes of capital accumulation.

These cycles are altogether different from the "secular cycles" (or price logistics) and the shorter Kondratieff cycles to which Braudel has attached so much importance. Secular and Kondratieff cycles are both empirical constructs of uncertain theoretical standing derived from observed long-term fluctuations in commodity prices (for surveys of the relevant literature, see Barr 1979; Goldstein 1988). Secular cycles bear some striking similarities to our systemic cycles; they are four in number, they all last longer than a century, and they become progressively shorter (Braudel 1984: 78). However, secular price cycles and systemic cycles of accumulation are completely out of synchrony with one another. A financial expansion is equally likely to come at the beginning, middle, or end of a secular (price) cycle (see figure 3.4 on p. 220, this volume).

Braudel does not attempt to reconcile this discrepancy between his dating of financial expansions – on which our periodization of systemic cycles of accumulation is based – and his dating of secular (price) cycles. And nor shall we. Faced with a choice between these two kinds of cycles, we have opted for systemic cycles because they are far more valid and reliable indicators of what is specifically capitalist in the modern world system than secular or Kondratieff cycles.

Indeed, there is no agreement in the literature on what long-term fluctuations in prices – whether of the logistic or the Kondratieff kind – indicate. They are certainly not reliable indicators of the contractions and expansions of whatever is specifically capitalist in the modern world system. Profitability and the command of capital over human and natural resources can decrease or increase just as much in a downswing as in an upswing. It all depends on whose competition is driving prices up or down. If it is the "capitalists" themselves, however defined, that are competing more (less) intensely than their "non-capitalist" suppliers and customers, profitability will fall (rise) and the command of capital over resources will decrease (increase), regardless of whether the overall tendency of prices is to rise or fall.

Nor do price logistics and Kondratieffs seem to be specifically capitalist phenomena. It is interesting to note that in Joshua Goldstein's synthesis

of the empirical findings and theoretical underpinnings of long-wave studies, the notion of "capitalism" plays no role at all. Statistically, he finds that long waves in prices and production are "explained" primarily by the severity of what he calls "great power wars." As for capitalism, the issue of its emergence and expansion is put squarely outside the scope of his investigation (Goldstein 1988: 258–74, 286).

The issue of the relationship between the rise of capitalism and long-term price fluctuations has troubled world system studies right from the start. Nicole Bousquet (1979: 503) considered it "embarrassing" that price logistics long pre-dated 1500. For the same reason, Albert Bergesen (1983: 78) wondered whether price logistics "represent the dynamics of feudalism or capitalism, or both." Even Imperial China seems to have experienced wave-like phenomena of the same kind as Europe (Hartwell 1982; Skinner 1985). Most unsettling of all, Barry Gills and André Gunder Frank (1992: 621–2) have maintained that "the fundamental cyclical rhythms and secular trends of the world system should be recognized as having existed for some 5000 years, rather than the 500 years that has been conventional in the world system and long wave approaches."

In short, the connection between Braudel's secular cycles and the *capitalist* accumulation of capital has no clear logical or historical foundation. The notion of systemic cycles of accumulation, in contrast, derives directly from Braudel's notion of capitalism as the "non-specialized" top layer in the hierarchy of the world of trade. This top layer is where "large-scale profits" are made. Here the profits are large, not just because the capitalist stratum "monopolizes" the most profitable lines of business; even more important is the fact that the capitalist stratum has the flexibility needed to switch its investments continually from the lines of business that face diminishing returns to the lines that do not (Braudel 1982: 22, 231, 428–30).

As in Marx's general formula of capital (MCM′), so in Braudel's definition of capitalism what makes an agency or social stratum capitalist is not its predisposition to invest in a particular commodity (e.g. labor-power) or sphere of activity (e.g. industry). An agency is capitalist in virtue of the fact that its money is endowed with the "power of breeding" (Marx's expression) systematically and persistently, regardless of the nature of the particular commodities and activities that are incidentally the medium at any given time. The notion of systemic cycles of accumulation which we have derived from Braudel's historical observation of recurrent financial expansions follows logically from this strictly instrumental relationship of capitalism to the world of trade and production, and emphasizes it. That is to say, financial expansions are taken to be symptomatic of a

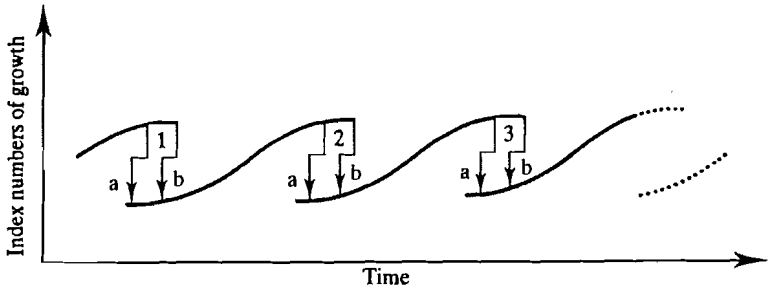
situation in which the investment of money in the expansion of trade and production no longer serves the purpose of increasing the cash flow to the capitalist stratum as effectively as pure financial deals can. In such a situation, capital invested in trade and production tends to revert to its money form and accumulate more directly, as in Marx's abridged formula MM′.

Systemic cycles of accumulation, unlike price logistics and Kondratieffs, are thus inherently capitalist phenomena. They point to a fundamental continuity in world-scale processes of capital accumulation in modern times. But they also constitute fundamental breaks in the strategies and structures that have shaped these processes over the centuries. Like some conceptualizations of Kondratieffs, such as Gerhard Mensch's (1979), David Gordon's (1980), and Carlota Perez's (1983), our cycles highlight the alternation of phases of continuous change with phases of discontinuous change.

Thus, our sequence of partly overlapping systemic cycles bears a close formal resemblance to Mensch's "metamorphosis model" of socioeconomic development. Mensch (1979: 73) abandons "the notion that the economy has developed in waves in favor of the theory that it has evolved through a series of intermittent innovative impulses that take the form of successive S-shaped cycles" (see figure 1.1). His model depicts phases of stable growth along a well-defined path alternating with phases of crisis, restructuring and turbulence, which eventually recreate the conditions of stable growth.

Mensch's model refers primarily to growth and innovations in particular industries or in particular national economies, and as such has no immediate relevance to our investigation. Nevertheless, the idea of cycles consisting of phases of continuous change along a single path alternating with phases of discontinuous change from one path to another underlies our sequence of systemic cycles of accumulation. The difference is that what "develops" in our model is not a particular industry or national economy but the capitalist world-economy as a whole over its entire lifetime. Thus, (MC) phases of material expansion will be shown to consist of phases of continuous change, during which the capitalist world-economy grows along a single developmental path. And (CM′) phases of financial expansion will be shown to consist of phases of discontinuous change during which growth along the established path has attained or is attaining its limits, and the capitalist world-economy "shifts" through radical restructurings and reorganizations onto another path.

Historically, growth along a single developmental path and shifts from one path to another have not been simply the unintended outcome of the innumerable actions undertaken autonomously at any given time



Source: Mensch (1979: 73).

1.1 Mensch's Metamorphosis Model

by individuals and the multiple communities into which the world-economy is divided. Rather, the recurrent expansions and restructurings of the capitalist world-economy have occurred under the leadership of particular communities and blocs of governmental and business agencies which were uniquely well placed to turn to their own advantage the unintended consequences of the actions of other agencies. The strategies and structures through which these leading agencies have promoted, organized, and regulated the expansion or the restructuring of the capitalist world-economy is what we shall understand by regime of accumulation on a world-scale. The main purpose of the concept of systemic cycles is to describe and elucidate the formation, consolidation, and disintegration of the successive regimes through which the capitalist world-economy has expanded from its late medieval sub-systemic embryo to its present global dimension.

The entire construction rests on Braudel's unconventional view of the relationship that links the formation and enlarged reproduction of historical capitalism as world system to processes of state formation on the one side, and of market formation on the other. The conventional view in the social sciences, in political discourse, and in the mass media is that capitalism and the market economy are more or less the same thing, and that state power is antithetical to both. Braudel, in contrast, sees capitalism as being absolutely dependent for its emergence and expansion on state power and as constituting the antithesis of the market economy (cf. Wallerstein 1991: chs 14–15).

More specifically, Braudel conceived of capitalism as the top layer of a three-tiered structure – a structure in which, "as in all hierarchies,

the upper [layers] could not exist without the lower stages on which they depend." The lowest and until very recently broadest layer is that of an extremely elementary and mostly self-sufficient economy. For want of a better expression, he called this the layer of *material life*, "the stratum of the non-economy, the soil into which capitalism thrusts its roots but which it can never really penetrate" (Braudel 1982: 21–2, 229):

> Above [this lowest layer], comes the favoured terrain of the *market economy*, with its many horizontal communications between the different markets: here a degree of automatic coordination usually links supply, demand and prices. Then alongside, or rather above this layer, comes the zone of the *anti-market*, where the great predators roam and the law of the jungle operates. This – today as in the past, before and after the industrial revolution – is the real home of *capitalism*. (Braudel 1982: 229–30; emphasis added)

A *world* market economy, in the sense of many horizontal communications between different markets, emerged from the depth of the underlying layer of material life long before capitalism-as-world-system rose above the layer of the market economy. As Janet Abu-Lughod (1989) has shown, a loose but none the less clearly recognizable system of horizontal communications between the principal markets of Eurasia and Africa was already in place in the thirteenth century. And for all we know, Gills and Frank may well be right in their claim that this system of horizontal communications actually emerged several millennia earlier.

Be that as it may, the question that bears directly on our research is not when and how a world market economy rose above the primordial structures of everyday life; it is when and how capitalism rose above the structures of the pre-existing world market economy and, over time, acquired its power to reshape the markets and lives of the entire world. As Braudel (1984: 92) points out, the metamorphosis of Europe into the "monstrous shaper of world history" that it became after 1500 was not a simple transition. Rather, it was "a series of stages and transitions, the earliest dating from well before what is usually known as 'the' Renaissance of the late fifteenth century."

The most decisive moment of this series of transitions was not the proliferation of elements of capitalist enterprise across Europe. Elements of this kind had occurred throughout the Eurasian trading system and were by no means peculiar to the West:

> Everywhere, from Egypt to Japan, we shall find genuine capitalists, wholesalers, the rentiers of trade, and their thousands of auxiliaries – the

> commission agents, brokers, money-changers and bankers. As for the techniques, possibilities or guarantees of exchange, any of these groups of merchants would stand comparison with its western equivalents. Both inside and outside India, Tamil, Bengali, and Gujerati merchants formed close-knit partnerships with business and contracts passing in turn from one group to another, just as they would in Europe from the Florentines to the Lucchese, the Genoese, the South Germans or the English. There were even, in medieval times, merchant kings in Cairo, Aden and the Persian Gulf ports. (Braudel 1984: 486)

Nowhere, except in Europe, did these elements of capitalism coalesce into the powerful mix that propelled European states towards the territorial conquest of the world and the formation of an all-powerful and truly global capitalist world-economy. From this perspective, the really important transition that needs to be elucidated is not that from feudalism to capitalism but from scattered to concentrated capitalist power. And the most important aspect of this much neglected transition is the unique fusion of state and capital, which was realized nowhere more favorably for capitalism than in Europe:

> Capitalism only triumphs when it becomes identified with the state, *when it is the state.* In its first great phase, that of the Italian city-states of Venice, Genoa, and Florence, power lay in the hands of the moneyed elite. In seventeenth-century Holland the aristocracy of the Regents governed for the benefit and even according to the directives of the businessmen, merchants, and money-lenders. Likewise, in England the Glorious Revolution of 1688 marked the accession of business similar to that in Holland. (Braudel 1977: 64–5; emphasis added)

The obverse of this process has been interstate competition for mobile capital. As Max Weber pointed out in his *General Economic History*, in antiquity, as in the late Middle Ages, European cities had been the seedbeds of "political capitalism." In both periods the autonomy of these cities was progressively eroded by larger political structures. Nevertheless, while in antiquity this loss of autonomy meant the end of political capitalism, in early modern times it meant the expansion of capitalism into a new kind of world system:

> In antiquity the freedom of the cities was swept away by a bureaucratically organized world empire within which there was no longer a place for political capitalism. . . . [In] contrast with antiquity [in the modern era the cities] came under the power of competing national states in a condition of perpetual struggle for power in peace or war. This competitive struggle created the largest opportunities for modern western capitalism. *The separate states had to compete for mobile capital, which dictated to them the conditions under which it would assist them to power.* . . . Hence it is the closed national state which afforded to capitalism its chance for development – and as long as the national state does not give place to a world empire capitalism also will endure. (Weber 1961: 247–9; emphasis added)

In making the same point in *Economy and Society*, Weber (1978: 353–4) further suggested that this competition for mobile capital among "large, approximately equal and purely political structures" resulted

> in that memorable alliance between the rising states and the sought-after and privileged capitalist powers that was a major factor in creating modern capitalism. . . . Neither the trade nor the monetary policies of the modern states . . . can be understood without this peculiar political competition and "equilibrium" among the European states during the last five hundred years.

Our analysis will substantiate these remarks by showing that interstate competition has been a critical component of each and every phase of financial expansion and a major factor in the formation of those blocs of governmental and business organizations that have led the capitalist world-economy through its successive phases of material expansion. But in partial qualification of Weber's thesis, our analysis will also show that the *concentration* of power in the hands of particular blocs of governmental and business agencies has been as essential to the recurrent *material* expansions of the capitalist world-economy as the competition among "approximately equal" political structures. As a rule, major material expansions have occurred only when a new dominant bloc accrued sufficient world power to be in a position not just to bypass or rise above interstate competition, but to bring it under control and ensure minimal interstate cooperation. What has propelled the prodigious expansion of the capitalist world-economy over the last five hundred years, in other words, has not been interstate competition as such, but interstate competition in combination with an ever-increasing concentration of capitalist power in the world system at large.

The idea of an ever-increasing concentration of capitalist power in the modern world system is implicit in a pattern noted by Karl Marx in *Capital*. Like Weber, Marx attributed great importance to the role played by the system of national debts pioneered by Genoa and Venice in the late Middle Ages in propelling the initial expansion of modern capitalism:

> National debts, i.e., the alienation of the state – whether despotic, constitutional or republican – marked with its stamp the capitalistic era. . . . As with the stroke of an enchanter's wand, [the public debt] endows barren

> money with the power of breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state-creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which can go on functioning in their hands just as so much hard cash would. (Marx 1959: 754–5)

Marx's focus on the domestic aspects of capital accumulation prevented him from appreciating the continuing significance of national debts in a system of states in constant competion with one another for assistance from capitalists for their power pursuits. For Marx, the alienation of the assets and future revenues of states was simply an aspect of "primitive accumulation" – Adam Smith's "previous accumulation," "an accumulation not the result of the capitalist mode of production, but its starting point" (Marx 1959: 713). Nevertheless, Marx did acknowledge the continuing significance of national debts, not as the expression of interstate competition, but as means of an "invisible" inter-capitalist cooperation, which "started" capital accumulation over and over again across the space–time of the capitalist world-economy from its inception through his own day:

> With the national debt arose an international credit system, which often conceals one of the sources of primitive accumulation in this or that people. Thus the villainies of the Venetian thieving system formed one of the secret bases of the capital-wealth of Holland to whom Venice in her decadence lent large sums of money. So was it with Holland and England. By the beginning of the 18th century . . . Holland had ceased to be the nation preponderant in commerce and industry. One of its main lines of business, therefore, [became] the lending out of enormous amounts of capital, especially to its great rival England. [And the] same thing is going on to-day between England and the United States. (Marx 1959: 755–6)

Marx, however, failed to notice that the sequence of leading capitalist states outlined in this passage consists of units of increasing size, resources, and world power. All four states – Venice, the United Provinces, the United Kingdom, and the United States – have been great powers of the successive epochs during which their ruling groups simultaneously played the role of leader in processes of state formation and of capital accumulation. Seen sequentially, however, the four states appear to have been great powers of a very different and increasing order. As we shall detail in the course of this study, the metropolitan domains of each state in this sequence encompass a larger territory and a greater variety of resources than those of its predecessor. More importantly, the networks of power and accumulation that enabled the states in question to reorganize

and control the world system within which they operated grew in scale and scope as the sequence progresses.

It can thus be seen that the expansion of capitalist power over the last five hundred years has been associated not just with interstate competition for mobile capital, as underscored by Weber, but also with the formation of political structures endowed with ever-more extensive and complex organizational capabilities to control the social and political environment of capital accumulation on a world-scale. Over the last five hundred years these two underlying conditions of capitalist expansion have been continually recreated in parallel with one another. Whenever world-scale processes of capital accumulation as instituted at any given time attained their limits, long periods of interstate struggle ensued, during which the state that controlled or came to control the most abundant sources of surplus capital tended also to acquire the organizational capabilities needed to promote, organize, and regulate a new phase of capitalist expansion of greater scale and scope than the preceding one.

As a rule, acquiring these organizational capabilities was far more the result of positional advantages in the changing spatial configuration of the capitalist world-economy than of innovation as such. Braudel (1977: 66–7) goes as far as saying that innovation played no role whatsoever in the successive spatial shifts of the center of systemic processes of accumulation: "Amsterdam copied Venice, as London would subsequently copy Amsterdam, and as New York would one day copy London." As we shall see, this process of imitation was far more complex than the simple sequence outlined here implies. Each shift will be shown to have been associated with a true "organizational revolution" in the strategies and structures of the leading agency of capitalist expansion. Nevertheless, Braudel's contention that the shifts reflected "the victory of a new region over an old one" combined with "a vast change of scale" will stand.

The flows of capital from declining to rising centers that Marx noted were the instrument of attempts on the part of declining centers to lay some claim to the large-scale surpluses that accrued to the new centers. Flows of this kind have characterized all past financial expansions. The current financial expansion, in contrast, is said to diverge from this pattern.

As we shall document in the Epilogue, the current financial expansion has witnessed the explosive growth of Japan and lesser East Asian states to a new center of world-scale processes of capital accumulation. And yet there was little evidence in the 1980s of a major flow of capital from the declining center to this emergent center. On the contrary, as Joel Kotkin and Yoriko Kishimoto (1988: 123) have pointed out, after quoting from

the passage in which Marx describes the "secret" support that declining leaders of processes of capital accumulation have accorded to their successors, "in a stunning reversal of Marx's dictum, the United States is not following the pattern of other capital-exporting empires (Venice, Holland and Great Britain), but now is attracting a new wave of overseas investment." In their view, this reversal is due primarily to the pull exercised on foreign capital by the United States' relative lack of control over foreign business activity, expanding population, physical expanse, vast resources, and "status as the world's richest and most developed continental power." In partial support of this contention, they report the view of the chief economist of a Japanese bank and "well-known economic nationalist" Hiroshi Takeuchi, according to whom the United States has the scale and resources that Japan will never possess. As a result, Japanese surpluses flowed to the United States just as British surpluses did in the late nineteenth century. "The Japanese role will be to assist the United States by exporting our money to rebuild your economy. This is the evidence that our economy is fundamentally weak. The money goes to America because you are fundamentally strong" (quoted in Kotkin and Kishimoto 1988: 122–3).

Takeuchi's view of Japanese power relative to US power is basically the same as that expressed by Samuel Huntington at a Harvard seminar on Japan held in 1979. As Bruce Cumings (1987: 64) reports, when Ezra Vogel opened the seminar by saying: "I am really very troubled when I think through the consequences of the rise of Japanese power," Huntington's reply was that Japan was in fact "an extraordinarily weak country." Its most fundamental weaknesses were "energy, food, and military security."

This assessment is based on the conventional view of interstate power as consisting primarily of relative size, self-sufficiency, and military forces. Such a view entirely overlooks the fact that the "technology of power" of capitalism – to borrow an expression from Michael Mann (1986) – has been quite different from territorialism. As Weber underscored in the passages quoted above, and as our investigation will substantiate, competition for mobile capital among large but approximately equal political structures has been the most essential and enduring factor in the rise and expansion of capitalist power in the modern era. Unless we take into account the effects of this competition on the power of the competing states and on the power of the statal and non-statal organizations that assist them economically in the struggle, our assessments of relationships of forces in the world system are bound to be fundamentally flawed. The capabilities of some Italian city-states over several centuries to keep at bay militarily and to influence politically the great territorial powers of late medieval and early modern Europe would be as incomprehensible as the

sudden collapse and disintegration in the late 1980s and early 1990s of the largest, most self-sufficient, and second greatest military power of our times: the USSR.

It is no accident that the seeming reversal of Marx's dictum noted by Kotkin and Kishimoto occurred in the midst of a sudden escalation of the armaments race and political-ideological struggle between the United States and the USSR – Fred Halliday's (1986) Second Cold War. Nor is it by chance that the financial expansion of the 1970s and 1980s attained its moment of greatest splendor precisely at the time of this sudden escalation. To paraphrase Marx, it was at this time that the alienation of the US state proceeded faster than ever before; and to paraphrase Weber, it was at this time that the competition for mobile capital between the two largest political structures in the world created for capitalism an extraordinary new opportunity for self-expansion.

The flow of capital from Japan to the United States in the early 1980s must be seen in this context. Political considerations inspired by Japan's dependence on, and subordination to, US world power no doubt played a critical role in prompting Japanese capital to assist the United States in the escalation of the power struggle, as Takeuchi seems to imply. Nevertheless, as subsequent events have shown, political considerations were inseparable from considerations of profit.

In this respect, the flow of capital from Japan to the United States was not as anomalous as Kotkin and Kishimoto thought. It was somewhat analogous to the financial assistance that the rising capitalist power (the United States) gave the declining capitalist power (the United Kingdom) in the two world wars. The Anglo-German confrontations, unlike the US–Soviet confrontation of the 1980s, were, of course, "hot" rather than "cold." But the financial requirements of the two confrontations and the profits that could be expected from "backing" the winner were none the less comparable.

The main difference between US financial assistance to Britain in the two world wars and Japanese financial assistance to the United States in the Second Cold War lies in the outcomes. Whereas the United States reaped enormous benefits, Japan did not. As we shall see in chapter 4, the two world wars and their aftermath were decisive moments in the redistribution of assets from Britain to the United States which hastened the change of leadership in systemic processes of capital accumulation. During and after the Second Cold War, in contrast, there was no comparable redistribution. In fact, Japan probably never got its money back.

The greatest losses were suffered as a consequence of the fall in the value of the US dollar after 1985. This meant that money borrowed in greatly overvalued dollars was serviced and repaid in undervalued

dollars. The losses inflicted on Japanese capital by the devaluation were such that Japanese business and the Japanese government withdrew their previously unconditional financial support for the US government. In mid-1987 Japanese private investors reversed their export of capital to the United States for the first time since the early 1980s. And after the stock market crash of October 1987, the Japanese Ministry of Finance did nothing to encourage financial intermediaries to support the important auction of US government debt held in November 1987 (Helleiner 1992: 434).

The difficulties Japan met in wielding its increasing command over surplus capital in order to redistribute assets from US to Japanese control were not simply the result of the historically unprecedented power of US public and private agencies, acting in concert, to manipulate demand and supply, interest rates, and rates of exchange in world financial markets. The acquisition of material assets in the United States presented difficulties of its own. As far as Japanese capital was concerned, the world's richest and most developed continental power proved to be not as devoid of control over foreign business as Kotkin and Kishimoto thought.

This "control" has been more informal than formal, but is no less real for all that. There have been cultural barriers of the kind best epitomized by the hysterical reaction triggered in and by the US media when Japanese capital bought the Rockefeller Center in New York City. Since Japanese purchases of US real estate paled in comparison with European, Canadian, and Australian purchases, the reaction sent the message to buyers and sellers alike that Japanese money did not have quite the same "right" to acquire US assets as did the money of foreigners of European stock.

If the mass media have been the chief protagonists in erecting cultural barriers to the transfer of US assets to Japanese capital, the US government has played its part by erecting political barriers. It welcomed Japanese money to finance its deficit and public debt and to establish production facilities that created jobs in the United States and reduced the US balance of payments deficit. But it strongly discouraged that same money from taking over profitable but strategically sensitive enterprises. Thus, in March 1987 protests from the Secretary of Defense, Caspar Weinberger, and Secretary of Commerce, Malcom Baldridge, convinced Fujitsu that it would be prudent to withdraw its attempt to take over the Fairchild Semiconductor Corporation. Yet, as Stephen Krasner (1988: 29) remarked: "Fairchild was owned by the French company Schlumberger, so the issue was not simply one of foreign ownership."

What cultural and political barriers could not stop, the barriers to entry built into the very structure of US corporate capitalism did. The complexities of US corporate life proved to be more insurmountable

barriers to entry for Japanese money than cultural hostility and political mistrust. The biggest ever Japanese takeovers in the United States – Sony's takeover of Columbia Pictures in 1989, and Matsushita's takeover of MCA the following year – failed completely in their objective. When the Sony deal was struck, the media over-reacted and *Newsweek*'s cover talked of Japan's "invasion" of Hollywood. And yet, as Bill Emmott wrote in the op-ed page of the *New York Times* (26 November 1993: A19),

> less than two years passed before it became clear that the scares and hyperbole had got it wrong. . . . [T]he Japanese "invasion" of U.S. business has been no such thing. Even the best Japanese companies have made spectacular and costly mistakes and have not taken control even of the businesses they purchased, let alone of culture and technology. (see also Emmott 1993)

In short, the real anomaly of US–Japanese relations during the current financial expansion is not that Japanese capital flowed to the United States in the early 1980s; rather, it is that Japanese capital benefited so little from assisting the United States economically in the final escalation of the Cold War with the former USSR. Is this anomaly symptomatic of a fundamental change in the mechanisms of interstate competition for mobile capital which have propelled and sustained the expansion of capitalist power over the last six hundred years?

These mechanisms have a clear built-in limit. Capitalist power in the world system cannot expand indefinitely without undermining interstate competition for mobile capital on which the expansion rests. Sooner or later a point will be reached where the alliances between the powers of state and capital that are formed in response to this competition become so formidable that they eliminate the competition itself and, therefore, the possibility for new capitalist powers of a higher order to emerge. Are the difficulties met by the emerging structures of Japanese capitalism in profiting from interstate competition for mobile capital a symptom of the fact that this point has been reached, or is about to be reached? Or, to rephrase it, do the structures of US capitalism constitute the ultimate limit of the six centuries-long process through which capitalist power has attained its present, seemingly all-encompassing scale and scope?

In seeking plausible answers to these questions, the complementary insights of Weber and Marx concerning the role of high finance in the modern era must be supplemented by Adam Smith's insights concerning the process of world market formation. Like Marx after him, Smith saw in the European "discoveries" of America and of a passage to the East Indies via the Cape of Good Hope a decisive turning point in world history. He

was none the less far less sanguine than Marx about the ultimate benefits of these events for humanity:

> Their consequences have already been great; but, in the short period of between two and three centuries which has elapsed since these discoveries were made, it is impossible that the whole extent of their consequences can have been seen. What benefits, or what misfortunes to mankind may hereafter result from these events, no human wisdom can foresee. By uniting, in some measure, the most distant parts of the world, by enabling them to relieve one another's wants, to increase one another's enjoyments, and to encourage one another's industry, their general tendency would seem to be beneficial. To the natives, however, both of the East and West Indies, all the commercial benefits which can have resulted from these events have been sunk and lost in the dreadful misfortunes which they have occasioned. These misfortunes, however, seem to have arisen rather from accident than from any thing in the nature of those events themselves. At the particular time when these discoveries were made, the *superiority of force* happened to be so great on the side of the Europeans, that they were enabled to commit with impunity every sort of injustice in those remote countries. Hereafter, perhaps, the natives of those countries may grow stronger, or those of Europe may grow weaker, and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force which, by inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another. But nothing seems more likely to establish this equality of force than that mutual communication of knowledge and of all sorts of improvements which an extensive commerce from all countries to all countries naturally, or rather necessarily, carries along with it. (Smith 1961: II, 141; emphasis added)

The process sketched in this passage presents some striking similarities with Braudel's view of the formation of a capitalist world-economy: the fortunes of the conquering West and the misfortunes of the conquered non-West as joint outcomes of a single historical process; the long time-horizon needed to describe and assess the consequences of this single historical process; and most important for our present purposes, the centrality of "force" in determining the distribution of costs and benefits among participants in the market economy.

Smith, of course, did not use the term "capitalism" – a term introduced in the vocabulary of the social sciences only in the twentieth century. Yet, his assessment that "superiority of force" was the most important factor in enabling the conquering West to appropriate most of the benefits – and to impose on the conquered non-West most of the costs – of the wider market economy established as a result of the so-called Discoveries, parallels Braudel's assessment that the fusion of state and capital was the

vital ingredient in the emergence of a distinctly capitalist layer on top of, and in antithesis to, the layer of market economy. As we shall see in chapter 3, in Smith's scheme of things large-scale profits can be maintained for any length of time only through restrictive practices, buttressed by state power, which constrain and disrupt the "natural" operation of the market economy. In this scheme of things, as in Braudel's, the upper layer of merchants and manufacturers "who commonly employ the largest capitals, and who by their wealth draw to themselves the greatest share of the public consideration" (Smith 1961: I, 278) is truly the "anti-market," Braudel's *contre-marché*.

However, Braudel's and Smith's conceptions of the relationship between the market economy and its capitalist antithesis differ in one important respect. For Braudel the relationship is fundamentally static. He neither sees nor foresees any synthesis emerging from the struggle between "thesis" and "antithesis." Smith, in contrast, does see such a synthesis emerging out of the withering away of inequality of force under the impact of the very process of world market formation. As the last sentence of the passage quoted above indicates, Smith thought that the widening and deepening of exchanges in the world market economy would act as an unstoppable equalizer of relationships of force between the West and the non-West.

A more dialectical conception of historical processes is not necessarily more accurate than a less dialectical one. As it turned out, for more than 150 years after Smith advanced the thesis of the corrosive impact of processes of world market formation on the superiority of force of the West, the inequality of force between West and non-West increased rather than decreased. World market formation and the military conquest of the non-West proceeded in tandem. By the 1930s, only Japan had fully escaped the misfortunes of Western conquest, but only by itself becoming an honorary member of the conquering West.

Then, during and after the Second World War, the wheel turned. Throughout Asia and Africa old sovereignties were re-established and scores of new ones were created. To be sure, massive decolonization was accompanied by the establishment of the most extensive and potentially destructive apparatus of Western force the world had ever seen. The far-flung network of quasi-permanent overseas military bases put in place by the United States during and after the Second World War, Krasner (1988: 21) notes, "was without historical precedent; no state had previously based its own troops on the sovereign territory of other states in such extensive numbers for so long a peacetime period." And yet, on the battlefields of Indochina, this world-encompassing military apparatus proved to be wholly inadequate to the task of coercing one of the poorest nations on earth to its will.

The successful resistance of the Vietnamese people marked the apogee of a process initiated by the Russian Revolution of 1917, whereby the West and non-West were reshuffled into a tripartite grouping consisting of a First, Second, and Third World. While the historical non-West came to be grouped almost entirely in the Third World, the historical West split into three distinct components. Its more prosperous components (North America, Western Europe, and Australia) joined by Japan, came to constitute the First World. One of its less prosperous components (the USSR and Eastern Europe) came to constitute the Second World, and another (Latin America) joined the non-West to constitute the Third World. Partly a cause and partly an effect of this tripartite fission of the historical West, the fortunes of the non-West from the end of the Second World War to the Vietnam War seemed to be in the ascendant.

Writing for the bicentenary of the publication of the *Wealth of Nations*, and shortly after the United States had decided to withdraw from Vietnam, Paolo Sylos-Labini (1976: 230–2) speculated on whether Smith's vision was about to be realized – whether the time had finally come when "the inhabitants of all the different quarters of the world . . . arrive at that equality of courage and force which, by inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another." The economic conjuncture also seemed to signal that some equalization of relationship of forces in the world system at large was imminent. The natural resources of Third World countries were in great demand, as was their abundant and cheap labor. Agents of First World bankers were queuing up in the ante-chambers of Third (and Second) World governments offering at bargain prices the overabundant capital that could not find profitable investment in their home countries. Terms of trade had turned sharply against the capitalist West, and the income gap between First and Third World countries seemed to be narrowing.

Within six years, though, it had become clear that any hope (or fear) of an imminent equalization of the opportunities of the peoples of the world to benefit from the continuing process of world market formation was, to say the least, premature. US competition for mobile capital in world money markets to finance both the Second Cold War and the "buying" of electoral votes at home through tax cuts, suddenly dried up the supply of funds to Third and Second World countries and triggered a major contraction in world purchasing power. Terms of trade swung back in favor of the capitalist West as fast and as sharply as they had swung against it in the 1970s, and the income gap between the capitalist West and the rest of the world became wider than ever (Arrighi 1991).

Nevertheless, the backlash did not restore the status quo ante. On the one hand, the superiority of force of the capitalist West seemed to have become greater than ever. Disoriented and disorganized by the increasing turbulence of the world-economy, and hard-pressed by the Second Cold War, the USSR was squeezed out of the "superpower business." Instead of having two superpowers to play off against one another, Third World countries now had to compete with the fragments of the Soviet empire in gaining access to the markets and resources of the capitalist West. And the capitalist West, under US leadership, moved quickly to take advantage of the situation to tighten its *de facto* global "monopoly" of the legitimate use of violence.

On the other hand, superiority of force and the capitalist accumulation of capital seemed to diverge geopolitically as never before. The decline of Soviet power was matched by the emergence of what Bruce Cumings (1993: 25–6) has aptly called the "capitalist archipelago" of East and Southeast Asia. This archipelago consists of several "islands" of capitalism, which rise above a "sea" of horizontal exchanges among local and world markets through the centralization within their domains of large-scale profits and high value-added activities. Below this sea lie the huge, low-cost, and highly industrious laboring masses of the entire East and Southeast Asian regions, into which the capitalist "islands" thrust their roots but without providing them with the means needed to rise to or above "sea level."

Japan is by far the largest among these capitalist "islands." Lesser "islands" of the capitalist archipelago are the city-states of Singapore and Hong Kong, the garrison state of Taiwan, and the half nation-state of South Korea. None of these states is powerful by conventional standards. Hong Kong has not even attained – nor probably will ever attain – full sovereignty. The three bigger states – Japan, South Korea, and Taiwan – are wholly dependent on the United States not just for military protection but also for much of their energy and food supplies as well as for the profitable disposal of their manufactures. Yet, collectively, the competitiveness of the East and Southeast Asian capitalist archipelago as the new "workshop of the world" is the single most important factor forcing the traditional centers of capitalist power – Western Europe and North America – to restructure and reorganize their own industries, their own economies, and their own ways of life.

What kind of power is this that even an expert eye can hardly discern? Is it a new kind of "superiority of force" or, rather, the beginning of the end of the superiority of force on which, over the last five hundred years, the capitalist fortunes of the West have been built? Is capitalist history about to end through the formation of a truly global world empire based on the enduring superiority of force of the West as Max Weber seemed to

envisage, or is it going to end through the formation of a world market economy in which the superiority of force of the West withers away as Adam Smith seemed to envisage?

In seeking plausible answers to these questions we shall proceed by successive approximations. Chapter 1 focuses on the process of formation and expansion of the modern interstate system as the primary locus of world power. The earliest beginnings of this process will be traced to the formation in late medieval Europe of a northern Italian sub-system of capitalist city-states. This sub-system was and remained an enclave of the disintegrating mode of rule of medieval Europe – a form of warlordism subjected to and held together by the dual systemic power of pope and emperor. It none the less prefigured, and unintentionally created the conditions for, the emergence two centuries later of the larger Westphalia system of nation-states.

The global expansion of this system will then be described as consisting of a series of transitions, in the course of which the system as previously instituted broke down, only to be reconstituted on wider social foundations. This preliminary analysis ends with the late twentieth-century crisis of the enlarged and thoroughly transformed Westphalia System. In diagnosing the symptoms of the present crisis, a new research agenda will be formulated which focuses more directly on the "space-of-flows" of business organizations than on the "space-of-places" of governments. It is at this point that our construction and comparison of systemic cycles of accumulation will begin.

The comparative analysis through which systemic cycles of accumulation will be constructed follows the procedure that Philip McMichael (1990) has called "incorporating comparison." The cycles are not presumed but constructed, both factually and theoretically, with the explicit purpose of gaining some understanding of the logic and likely outcome of the present financial expansion. The comparison is *incorporated* into the very definition of the research problem: it constitutes the substance rather than the framework of the inquiry. The cycles that emerge from the inquiry are neither subordinated parts of a preconceived whole, nor independent instances of a condition; they are interconnected instances of a *single* historical process of capitalist expansion which they themselves constitute and modify.

Chapter 2 constructs the first two instances of this single historical process of capitalist expansion: the Genoese and the Dutch cycles. Chapter 3 adds a new stage to the process by defining the third (British) cycle and comparing it with the first two. The concluding section of the chapter makes explicit and seeks some plausible explanation for the pattern of recurrence and evolution revealed by the comparative analysis of the first three cycles. The stage is thus set for the construction in

chapter 4 of the fourth (US) systemic cycle of accumulation, portrayed as an outgrowth of the preceding cycles and the matrix of our times. In the Epilogue we shall return to the questions that we have raised in this Introduction.

This reconstruction of capitalist history has its own limitation. The notion of systemic cycle of accumulation, we have noted, derives directly from Braudel's notion of capitalism as the top layer of the hierarchy of the world of trade. Our analytical construct, therefore, focuses on that top layer and offers a limited view of what goes on in the middle layer of market economy and the bottom layer of material life. This is simultaneously the main strength and the main weakness of the construct. It is its main strength because the top layer is "the real home of capitalism" and at the same time it is less transparent and less explored than the intermediate layer of the market economy. The transparency of the activities that constitute the layer of market economy and the wealth of data (particularly quantitative data) that these activities generate, have made this intermediate layer the "privileged arena" of historical social science and economics. The layers below and above the market economy are instead "shadowy zones" (*zones d'opacité*). The bottom layer of material life is "hard to see for lack of adequate historical documents." The upper layer, in contrast, is hard to see because of the actual invisibility or the complexity of the activities that constitute it (Braudel 1981: 23–4; Wallerstein 1991: 208–9):

> At this exalted level, a few wealthy merchants in eighteenth-century Amsterdam or sixteenth-century Genoa could throw whole sectors of the European or even world economy into confusion, from a distance. Certain groups of privileged actors are engaged in circuits and calculations that ordinary people knew nothing of. Foreign exchange, for example, which was tied to distant trade movements and to the complicated arrangements for credit, was a sophisticated art open only to a few initiates at most. To me, this second shadowy zone, hovering above the sunlit world of the market economy and constituting its upper limit so to speak, represents the favored domain of capitalism. . . . Without this zone, capitalism is unthinkable: this is where it takes up residence and prospers. (Braudel 1981: 24)

Systemic cycles of accumulation are meant to throw some light on this shadowy zone without which "capitalism is unthinkable." They are not meant to tell us what goes on in the lower layers, except for what is directly relevant to the dynamic of the systemic cycles themselves. This, of course, leaves much out of sight or in the dark, including the privileged arenas of world systems studies: core-periphery and labor-capital relations. But we cannot do everything at once.

Marx (1959: 176) invited us to "take leave for a time of [the] noisy sphere [of circulation], where everything takes place on the surface and in view of all men, and follow [the possessor of money and the possessor of labor-power] into the hidden abode of production, on whose threshold there stares us in the face 'No admittance except on business.' " Here, he promised, "[w]e shall at last force the secret of profit making." Braudel also invited us to take leave for a time of the noisy and transparent sphere of the market economy, and follow the possessor of money into another hidden abode, where admittance is only on business but which is one floor above, rather than one floor below the marketplace. Here, the possessor of money meets the possessor, not of labor-power, but of political power. And here, promised Braudel, we shall force the secret of making those large and regular profits that has enabled capitalism to prosper and expand "endlessly" over the last five to six hundred years, before and after its ventures into the hidden abodes of production.

These are complementary projects, not alternative ones. However, we cannot go to the top and the bottom floors at the same time. Generations of historians and social scientists have taken up Marx's invitation and have extensively explored the bottom floor. In so doing, they may not have discovered "the" secret of profit-making in the industrial phase of capitalism, but they have certainly discovered many of its secrets. Then dependency and world system theorists and practitioners have invited us to have another look at the middle floor of market economy to see how its "laws" tend to polarize the hidden abodes of production into core and peripheral locales. In this way more of the secrets of profit-making have been exposed. But few have ventured to the top floor of the "anti-market" where, in the words of Braudel's hyperbole, "the great predators roam and the law of the jungle operates" and where the secrets of the *longue durée* of historical capitalism are said to be hidden.

Today – when world capitalism seems to be prospering, not by thrusting its roots more deeply into the lower layers of material life and market economy, but by pulling them out – is as good a time as any to take up Braudel's invitation and explore the real home of capitalism on the top floor of the house of trade. That and that only is what we are about to undertake.

It follows that our construction is both partial and somewhat indeterminate. Partial because it seeks some understanding of the logic of the present financial expansion abstracting from the movements that go on under their own steam and laws at the levels of the world's market economies and of the world's material civilizations. It is somewhat indeterminate for the same reason. The logic of the top layer is only relatively autonomous from the logics of the lower layers and can be fully understood only in relation to these other logics.

Certainly, as our construction proceeds, what initially may appear to be mere historical contingency will begin to appear to reflect a structural logic. Nevertheless, the tension between the two kinds of appearance cannot be fully resolved within the limits of our research agenda. A full resolution of the tension – if that is possible – requires that we descend again to explore the lower layers of market economy and material life with the knowledge and questions brought back from the journey into the top layer which this book undertakes.

1

The Three Hegemonies of Historical Capitalism

Hegemony, Capitalism, and Territorialism

The decline of US world power since about 1970 has occasioned a wave of studies on the rise and decline of "hegemonies" (Hopkins and Wallerstein 1979; Bousquet 1979; 1980; Wallerstein 1984), "core hegemonic states" (Chase-Dunn 1989), "world or global powers" (Modelski 1978; 1981; 1987; Modelski and Thompson 1988; Thompson 1988; 1992), "cores" (Gilpin 1975), and "great powers" (Kennedy 1987). These studies differ considerably in their object of study, methodology, and conclusions but they have two characteristics in common. First, if and when they use the term "hegemony," they mean "dominance" (cf. Rapkin 1990) and, second, their focus and emphasis is on an alleged basic invariance of the system within which the power of a state rises and declines.

Most of these studies rely on some notion of "innovation" and "leadership" in defining the relative capabilities of states. For Modelski, systemic innovations and leadership in carrying them out are assumed to be the main sources of "world power." But in all these studies, including Modelski's, systemic innovations do not change the basic mechanisms through which power in the interstate system rises and declines. In fact, the invariance of these mechanisms is generally held to be one of the central features of the interstate system.

The concept of "world hegemony" adopted here, in contrast, refers specifically to the power of a state to exercise functions of leadership and governance over a system of sovereign states. In principle, this power may involve just the ordinary management of such a system as instituted at a given time. Historically, however, the government of a system of sovereign states has always involved some kind of transformative action, which changed the mode of operation of the system in a fundamental way.

This power is something more and different from "dominance" pure and simple. It is the power associated with dominance expanded by the exercise of "intellectual and moral leadership." As Antonio Gramsci emphasized, with reference to hegemony at the national level,

> 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. A social group can, and indeed must, already exercise "leadership" before winning governmental power (this indeed is one of the principal conditions for winning such power); it subsequently becomes dominant when it exercises power, but even if it holds it firmly in its grasp, it must continue to "lead" as well. (Gramsci 1971: 57–8)

This is a reformulation of Machiavelli's conception of power as a combination of consent and coercion. Coercion implies the use of force, or a credible threat of force; consent implies moral leadership. In this dichotomy there is no room for the most distinctive instrument of capitalist power: control over means of payment. In Gramsci's conceptualization of power the grey area that lies between coercion and consent is occupied by "corruption" and "fraud":

> Between consent and force stands corruption/fraud (which is characteristic of certain situations when it is hard to exercise the hegemonic function, and when the use of force is too risky). This consists in procuring the demoralization and paralysis of the antagonist (or antagonists) by buying its leaders – either covertly, or, in case of imminent danger, openly – in order to sow disarray and confusion in its ranks. (Gramsci 1971: 80n)

In our scheme of things, much more than mere corruption and fraud stands in the grey area between coercion and consent. But until we turn to explore this area through the construction of systemic cycles of accumulation, we shall assume that no autonomous source of world power lies between coercion and consent. Whereas dominance will be conceived of as resting primarily on coercion, hegemony will be understood as the *additional* power that accrues to a dominant group by virtue of its capacity to place all the issues around which conflict rages on a "universal" plane.

> It is true that the State is seen as the organ of one particular group, destined to create favorable conditions for the latter's maximum expansion. But the development and expansion of the particular group are conceived of, and presented, as being the motor force of a universal expansion, a development of all the "national" energies. (Gramsci 1971: 181–2)

The claim of the dominant group to represent the general interest is always more or less fraudulent. Nevertheless, following Gramsci, we shall speak of hegemony only when the claim is at least partly true and adds something to the power of the dominant group. A situation in which the claim of the dominant group to represent the general interest is purely fraudulent will be defined as a situation not of hegemony but of the failure of hegemony.

Since the word hegemony, in its etymological sense of "leadership" and in its derived sense of "dominance," normally refers to relations between states, it is entirely possible that Gramsci was using the term metaphorically to clarify relations between social groups through an analogy with relations between states. In transposing Gramsci's concept of social hegemony from intra-state relations to interstate relations – as Arrighi (1982), Cox (1983; 1987), Keohane (1984a), Gill (1986; 1993), and Gill and Law (1988) among others do explicitly or implicitly – we may simply be retracing in reverse Gramsci's mental process. In so doing we are faced with two problems.

The first concerns the double meaning of "leadership," particularly when applied to relations between states. A dominant state exercises a hegemonic function if it leads the *system* of states in a desired direction and, in so doing, is perceived as pursuing a general interest. It is this kind of leadership that makes the dominant state hegemonic. But a dominant state may lead also in the sense that it draws other states onto its own path of development. Borrowing an expression from Joseph Schumpeter (1963: 89), this second kind of leadership can be designated as "leadership against one's own will" because, over time, it enhances competition for power rather than the power of the hegemon. These two kinds of leadership may coexist – at least for a time. But it is only leadership in the first sense that defines a situation as hegemonic.

The second problem concerns the fact that it is more difficult to define a general interest at the level of the interstate system than it is at the level of individual states. At the level of individual states, an increase in the power of the state *vis-à-vis* other states is an important component and in itself a measure of the successful pursuit of a general (that is, national) interest. But power in this sense cannot increase for the system of states as a whole, by definition. It can, of course, increase for a particular group of states at the expense of all other states, but the hegemony of the leader of that group is at best "regional" or "coalitional," not a true world hegemony.

World hegemonies as understood here can only arise if the pursuit of power by states in relation to one another is not the only objective of state action. In fact, the pursuit of power in the interstate system is only one side of the coin that jointly defines the strategy and structure of states

qua organizations. The other side is the maximization of power *vis-à-vis* subjects. A state may therefore become world hegemonic because it can credibly claim to be the motor force of a general expansion of the *collective* power of rulers *vis-à-vis* subjects. Or conversely, a state may become world hegemonic because it can credibly claim that the expansion of its power relative to some or even all other states is in the general interest of the subjects of all states.

Claims of this kind are most likely to be truthful and credible in conditions of "systemic chaos." "Chaos" is not the same thing as "anarchy." Although the two terms are often used interchangeably, an understanding of the systemic origins of world hegemonies requires that we distinguish between the two.

"Anarchy" designates "absence of central rule." In this sense, the modern system of sovereign states as well as the system of rule of medieval Europe out of which the latter emerged, qualify as anarchic systems. Yet, each of these two systems had or has its own implicit and explicit principles, norms, rules, and procedures which justify our referring to them as "ordered anarchies" or "anarchic orders."

The concept of "ordered anarchy" was first introduced by anthroplogists seeking to explicate the observed tendency of "tribal" systems to generate order out of conflict (Evans-Pritchard 1940; Gluckman 1963: ch. 1). This tendency has been at work in the medieval and modern systems of rule as well, because in these systems too the "absence of central rule" has not meant lack of organization and, within limits, conflict has tended to generate order.

"Chaos" and "systemic chaos," in contrast, refer to a situation of total and apparently irremediable lack of organization. It is a situation that arises because conflict escalates beyond the threshold within which it calls forth powerful countervailing tendencies, or because a new set of rules and norms of behavior is imposed on, or grows from within, an older set of rules and norms without displacing it, or because of a combination of these two circumstances. As systemic chaos increases, the demand for "order" – the old order, a new order, any order! – tends to become more and more general among rulers, or among subjects, or both. Whichever state or group of states is in a position to satisfy this system-wide demand for order is thus presented with the opportunity of becoming world hegemonic.

Historically, the states that have successfully seized this opportunity did so by reconstituting the world system on new and enlarged foundations thereby restoring some measure of interstate cooperation. In other words, world hegemonies have not "risen" and "declined" in a world system that expanded independently on the basis of an invariant structure, however defined. Rather, the modern world system itself has been formed by, and

has expanded on the basis of, recurrent fundamental restructurings led and governed by successive hegemonic states.

These restructurings are a characteristic phenomenon of the modern system of rule which emerged out of the decay and eventual disintegration of the medieval European system of rule. As John Ruggie has argued, there is a fundamental difference between the modern and the medieval (European) systems of rule. Both can be characterized as "anarchic," but anarchy, in the sense of "absence of central rule," means different things, according to the principles on the basis of which the units of the system are separated from one another: "If anarchy tells us *that* the political system is a segmental realm, differentiation tells us *on what basis* the segments are determined" (Ruggie 1983: 274; emphasis in the original).

The medieval system of rule consisted of chains of lord-vassal relationships, based on an amalgam of conditional property and private authority. As a result, "different juridical instances were geographically interwoven and stratified, and plural allegiances, asymmetrical suzerainties and anomalous enclaves abounded" (Anderson 1974: 37–8). In addition, ruling elites were extremely mobile *across* the space of these overlapping political jurisdictions, being able "to travel and assume governance from one end of the continent to the other without hesitation or difficulty." Finally, this system of rule was "legitimated by common bodies of law, religion, and custom that expressed inclusive natural rights pertaining to the social totality formed by the constituent units" (Ruggie 1983: 275):

> In sum, this was quintessentially a system of segmental rule; it was anarchy. But it was a form of segmental territorial rule that had none of the connotations of possessiveness and exclusiveness conveyed by the modern concept of sovereignty. It represented a heteronomous organization of territorial rights and claims – of political space. (Ruggie 1983: 275)

In contrast to the medieval system, "the modern system of rule consists of the institutionalization of public authority within mutually exclusive jurisdictional domains" (Ruggie 1983: 275). Rights of private property and rights of public government become absolute and discrete; political jurisdictions become exclusive and are clearly demarcated by boundaries; the mobility of ruling elites across political jurisdictions slows down and eventually ceases; law, religion, and custom become "national," that is, subject to no political authority other than that of the sovereign. As Etienne Balibar (1990: 337) has put it:

> the correspondence between the nation form and all other phenomena toward which it tends has as its prerequisite a complete (no "omissions") and nonoverlapping divisioning of the world's territory and populations (and therefore resources) among the political entities. . . . To each individual a nation, and to each nation its "nationals."

This "becoming" of the modern system of rule has been closely associated with the development of capitalism as a system of accumulation on a world scale, as underscored in Immanuel Wallerstein's conceptualization of the modern world system as a capitalist world-economy. In his analysis, the rise and expansion of the modern interstate system is both the main cause and an effect of the endless accumulation of capital: "Capitalism has been able to flourish precisely because the world-economy has had within its bounds not one but a multiplicity of political systems" (Wallerstein 1974a: 348). At the same time, the tendency of capitalist groups to mobilize their respective states in order to enhance their competitive position in the world-economy has continually reproduced the segmentation of the political realm into separate jurisdictions (Wallerstein 1974b: 402).

In the scheme of things proposed here, the close historical tie between capitalism and the modern interstate system is just as much one of contradiction as it is one of unity. We must take into account the fact that "capitalism and national states grew up together, and presumably depended on each other in some way, yet capitalists and centers of capital accumulation often offered concerted resistance to the extension of state power" (Tilly 1984: 140). In our account, the division of the world-economy into competing political jurisdictions does not necessarily benefit the capitalist accumulation of capital. Whether it does or not depends largely on the form and intensity of competition.

Thus, if interstate competition takes the form of intense and long-drawn-out armed struggles, there is no reason why the costs of interstate competition to capitalist enterprises should not exceed the costs of centralized rule they would have to bear in a world empire. On the contrary, under such circumstances the profitability of capitalist enterprise might very well be undermined and eventually destroyed by an ever-increasing diversion of resources to military enterprise and/or by an ever-increasing disruption of the networks of production and exchange through which capitalist enterprises appropriate surpluses and transform such surpluses into profits.

At the same time, competition among capitalist enterprises does not necessarily promote the continual segmentation of the political realm into separate jurisdictions. Again, it largely depends on the form and intensity of competition, in this case among capitalist enterprises. If these enterprises are enmeshed in dense trans-statal networks of production and exchange, the segmentation of these networks into discrete political jurisdictions

may have a detrimental bearing on the competitive position of each and every capitalist enterprise relative to non-capitalist institutions. In these circumstances, capitalist enterprises may well mobilize governments to reduce rather than increase or reproduce the political division of the world-economy.

In other words, interstate and inter-enterprise competition can take different forms, and the form they take has important consequences for the way in which the modern world system – as mode of rule and as mode of accumulation – functions or does not function. It is not enough to emphasize the historical connection between interstate and inter-enterprise competition. We must also specify the form which they take and how they change over time. Only in this way can we fully appreciate the evolutionary nature of the modern world system and the role played by successive world hegemonies in making and remaking the system in order to resolve the recurrent contradiction between an "endless" accumulation of capital and a comparatively stable organization of political space.

Central to such an understanding is the definition of "capitalism" and "territorialism" as opposite modes of rule or logics of power. Territorialist rulers identify power with the extent and populousness of their domains, and conceive of wealth/capital as a means or a by-product of the pursuit of territorial expansion. Capitalist rulers, in contrast, identify power with the extent of their command over scarce resources and consider territorial acquisitions as a means and a by-product of the accumulation of capital.

Paraphrasing Marx's general formula of capitalist production (MCM′), we may render the difference between the two logics of power by the formulas TMT′ and MTM′, respectively. According to the first formula, abstract economic command or money (M) is a means or intermediate link in a process aimed at the acquisition of additional territories (T′ minus T = + ΔT). According to the second formula, territory (T) is a means or an intermediate link in a process aimed at the acquisition of additional means of payments (M′ minus M = + ΔM).

The difference between these two logics can also be expressed by the metaphor that defines states as "containers of power" (Giddens 1987). Territorialist rulers tend to increase their power by expanding the size of their container. Capitalist rulers, in contrast, tend to increase their power by piling up wealth within a small container and increase the size of the container only if it is justified by the requirements of the accumulation of capital.

The antinomy between a capitalist and a territorialist logic of power should not be confused with Charles Tilly's distinction between a "coercion-intensive," a "capital-intensive," and an intermediate

"capitalized coercion" mode of state- and war-making. These modes, as Tilly (1990: 30) explains, do not represent alternative "strategies" of power. Rather they represent different combinations of coercion and capital in processes of state-making and war-making which may be oriented towards the same objective as far as gaining control over territory/population or means of payments is concerned. The "modes" are neutral as to the purpose of the process of state-making to which they contribute.

Capitalism and territorialism as defined here, in contrast, do represent alternative strategies of state formation. In the territorialist strategy controls over territory and population is the objective, and control over mobile capital the means, of state- and war-making. In the capitalist strategy, the relationship between ends and means is turned upside down: control over mobile capital is the objective, and control over territory and population the means. This antinomy implies nothing concerning the intensity of coercion employed in the pursuit of power through either strategy. As we shall see, at the height of its power the Venetian republic was simultaneously the clearest embodiment of a capitalist logic of power and of a coercion-intensive path to state formation. What the antinomy does imply is that the truly innovative aspect of the process of formation of the Venetian state and of the system of city-states to which Venice belonged was not the extent to which the process relied on coercion but the extent to which it was oriented towards the accumulation of capital rather than the incorporation of territory and population.

The logical structure of state action with regard to territorial acquisition and capital accumulation should not be confused with actual outcomes. Historically, the capitalist and the territorialist logics of power have not operated in isolation from one another but in relation to one another, within a given spatio-temporal context. As a result, actual outcomes have departed significantly, even diametrically, from what is implicit in each logic conceived abstractly.

Thus, historically, the strongest tendency towards territorial expansion has arisen out of the seedbed of political capitalism (Europe) rather than out of the seat of the most developed and best established territorialist empire (China). This discrepancy was not due to initial differences in capabilities. "From what historians and archeologists can tell us of the size, power, and seaworthiness of Cheng Ho's navy," notes Paul Kennedy, "[the Chinese] might well have been able to sail around Africa and 'discover' Portugal several decades before Henry the Navigator's expeditions began earnestly to push south of Ceuta" (1987: 7). After the successful expeditions of Admiral Cheng Ho in the Indian Ocean, however, Ming China withdrew its fleet, restricted maritime trade, and terminated relations with foreign powers. According to Janet Abu-Lughod, why Ming China should

have decided to do so, instead of taking the final steps to become truly hegemonic in the Eurasian world system, "has perplexed – indeed caused despair among – serious scholars for at least the past one hundred years." More specifically, having come

> [c]lose to exercise domination over a significant portion of the globe and enjoying a technological advantage not only in peaceful production but in naval and military might as well . . . why did [China] turn her back, withdraw her fleet, and thus leave an enormous vacuum of power that Muslim merchantmen, unbacked by state sea power, were totally unprepared to fill, but which their European counterparts would be more than willing and able to – after a hiatus of some 70 years? (Abu-Lughod 1989: 321–2)

Why Ming China purposefully abstained from undertaking the kind of "discovery" and conquest of the world into which successive European states soon afterwards began concentrating their energies and resources in fact has a rather simple answer. As Eric Wolf has pointed out, ever since Roman times Asia had been a purveyor of valued goods for the tribute-taking classes of Europe and had thereby exercised a powerful pull on Europe's precious metals. This structural imbalance of European trade with the East created strong incentives for European governments and businesses to seek ways and means, through trade or conquest, to retrieve the purchasing power that relentlessly drained from West to East. As Charles Davenant was to observe in the seventeenth century, whoever controlled the Asian trade would be in a position to "give law to all the commercial world" (Wolf 1982: 125).

It follows that the expected benefits for Portugal and other European states of discovering and controlling a direct route to the East were incomparably greater than the expected benefits of discovering and controlling a direct route to the West were for the Chinese state. Christopher Columbus stumbled on the Americas because he and his Castillian sponsors had treasure to retrieve in the East. Cheng Ho was not so lucky because there was no treasure to retrieve in the West.

In other words, the decision not to do what the Europeans would do later is perfectly understandable in terms of a territorialist logic of power that weighed carefully the prospective benefits, costs, and risks of the additional commitment of resources to state- and war-making involved in the territorial and commercial expansion of empire. In this connection we should note that Joseph Schumpeter's (1955: 64–5) thesis that precapitalist state formations have been characterized by strong "objectless" tendencies "toward forcible expansion, without definite, utilitarian limits – that is, non-rational and irrational, purely instinctual inclinations toward war and conquest" – holds no water in the case of

Imperial China. *Pace* Schumpeter, a strictly territorialist logic of power as conceptualized here, and typified ideally by Imperial China in the pre-modern and modern eras, is neither more nor less "rational" than a strictly capitalist logic of power. It is rather a different logic – one in which control over territory and population is in itself the objective of state- and war-making activities rather than mere means in the pursuit of pecuniary profit. The fact that such a control is pursued as an end in itself does not mean that its expansion is not subject to "definite, utilitarian limits." Nor does it mean that expansion is undertaken mindlessly beyond the point at which its prospective benefits in terms of power are either negative or positive but insufficient to warrant the risks involved in one kind or another of "imperial overstretch."

In fact, the Chinese imperial state constitutes the clearest historical instance of a territorialist organization that never fell into the trap of the kind of overstretch to which Paul Kennedy (1987) attributes the eventual downfall of successive Western great powers. What is most puzzling in terms of a strictly territorialist logic of power is not the lack of an expansionist drive in Ming China but the seemingly unbounded expansionism of European states since the latter half of the fifteenth century. The extraordinary benefits that European governments and businesses could reap by seizing control of trade in and with Asia provide part of the explanation. They none the less provide no answer to three closely related questions: (1) why this unprecedented expansionism began when it did; (2) why it proceeded unimpeded by the fall of one Western power after another, until almost the entire land surface of the earth had been conquered by peoples of European descent; and (3) whether and how the phenomenon has been related to the contemporaneous formation and equally explosive expansion of capitalism as world system of accumulation and rule.

The Origins of the Modern Interstate System

Preliminary answers to these questions can be sought and found in an investigation of the origins, structure, and evolution of the modern interstate system. The critical feature of this system has been the constant opposition of the capitalist and territorialist logics of power and the recurrent resolution of their contradictions through the reorganization of world political-economic space by the leading capitalist state of the epoch. This dialectic between capitalism and territorialism antedates the establishment in the seventeenth century of a pan-European interstate system. Its origins lie in the formation within the medieval system of rule of a regional sub-system of capitalist city-states in northern Italy.

Initially, the regional sub-system of capitalist city-states that emerged in northern Italy was no more than one of the "anomalous enclaves" that abounded in the political space of the medieval system of rule, as Perry Anderson reminds us in the passage quoted earlier. But as the decay of the medieval system of rule gathered pace, the northern Italian capitalist enclave became organized into a sub-system of separate and independent political jurisdictions, held together by the principle of the balance of power and by dense and extensive networks of residential diplomacy. As Mattingly (1988), Cox (1959), Lane (1966; 1979), Braudel (1984: ch. 2), and McNeill (1984: ch. 3) emphasize in different but complementary ways, this sub-system of city-states, centered on Venice, Florence, Genoa, and Milan – the "big four" as Robert Lopez (1976: 99) has called them – anticipated by two centuries or more many of the key features of the modern interstate system. As Ruggie (1993: 166) put it, the Europeans invented the modern state not once but twice, "once in the leading cities of the Italian Renaissance and once again in the kingdoms north of the Alps sometime thereafter."

Four main features of this system were prefigured in the northern Italian sub-system of city-states. First, this sub-system constituted a quintessentially capitalist system of war- and state-making. The most powerful state in the sub-system, Venice, is the true prototype of the capitalist state, in the double sense of "perfect example" and "model for future instances" of such a state. A merchant capitalist oligarchy firmly held state power in its grip. Territorial acquisitions were subjected to careful cost-benefit analyses and, as a rule, were undertaken only as the means to the end of increasing the profitability of the traffics of the capitalist oligarchy that exercised state power (Cox 1959: chs 2–5; Lane 1966: 57; Braudel 1984: 120–1; Modelski and Modelski 1988: 19–32).

Pace Sombart, if there has ever been a state whose executive met the *Communist Manifesto*'s standards of the capitalist state ("but a committee for managing the common affairs of the whole bourgeoisie" – Marx and Engels 1967: 82), it was fifteenth-century Venice. From this standpoint, the leading capitalist states of future epochs (the United Provinces, the United Kingdom, the United States) appear as increasingly diluted versions of the ideotypical standards realized by Venice centuries earlier.

Second, the operation of the "balance of power" played a crucial role at three different levels in fostering the development of this enclave of capitalist rule within the medieval system. The balance of power between the central authorities of the medieval system (pope and emperor) was instrumental in the emergence of an organized capitalist enclave in northern Italy – the geopolitical locus of that balance. The balance of power between the northern Italian city-states themselves was instrumental in preserving their mutual separateness and autonomy. And the balance of power between the emerging dynastic states of Western Europe was instrumental in preventing the logic of territorialism from nipping in the bud the rise of a capitalist logic within the European system of rule (cf. Mattingly 1988; McNeill 1984: ch. 3).

The balance of power was thus always integral to the development of capitalism as mode of rule. In fact, the balance of power can be interpreted as a mechanism by means of which capitalist states can, separately or jointly, reduce protection costs both absolutely and relative to their competitors and rivals. For the balance of power to be or become such a mechanism, however, the capitalist state(s) must be in a position to manipulate the balance to its (their) advantage instead of being cog(s) in a mechanism which no one or someone else controls. If the balance of power can be maintained only through repeated and costly wars, then participation in its working defeats the purpose of the capitalist state(s), because the pecuniary costs of such wars inevitably tend to exceed their pecuniary benefits. The secret of capitalist success is to have one's wars fought by others, if feasible costlessly and, if not, at the least possible cost.

Third, by developing wage-labor relations in what Frederic Lane (1979) 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:

> [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 monies back in circulation. Thereby, they intensified the market exchanges that allowed such towns to commercialize armed violence in the first place. The emergent system thus tended to become self-sustaining. (McNeill 1984: 74)

Indeed, the emergent system could become self-sustaining only up to a point. According to this characterization, the Italian city-states were practicing a kind of small-scale "military Keynesianism" – the practice through 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. As in all subsequent kinds of military Keynesianism, however, the "self-expansion" of military expenditures was strictly limited by permanent leakages of effective demand to other jurisdictions, by cost inflation, 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.

Fourth and last, the capitalist rulers of the northern Italian city-states (again, Venice in the first place) took the lead in developing dense and extensive networks of residential diplomacy. Through these networks they acquired the knowledge and the information concerning the ambitions and capabilities of other rulers (including the territorialist rulers of the wider medieval system of rule within which they operated) which were necessary to manipulate the balance of power in order to minimize protection costs. Just as the profitability of long-distance trade depended crucially on a quasi-monopolistic control of information over the largest economic space possible (Braudel 1982), so the capacity of capitalist rulers to manage the balance of power to their own advantage depended crucially on a quasi-monopolistic knowledge of, and capacity to monitor, the decision-making processes of other rulers.

This was the function of residential diplomacy. In comparison with territorialist rulers, capitalist rulers had both stronger motivations and greater opportunities to promote its development: stronger motivations because superior knowledge concerning the ambitions and capabilities of rulers was essential to the management of the balance of power which, in turn, was central to economizing in state-making and war-making; but greater opportunities, because the networks of long-distance trade controlled by the capitalist oligarchies provided a ready-made and self-financing foundation on which to build diplomatic networks (Mattingly 1988: 58–60). Be that as it may, the achievements of diplomacy in the consolidation of the northern Italian system of city-states – most notably the Peace of Lodi (1454) – provided a model for the formation two centuries later of the European system of nation-states (Mattingly 1988: 178).

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 thus complemented one another and, for a century or more, promoted an extraordinary concentration of wealth and power in the hands of the oligarchies that ruled the northern Italian city-states. By about 1420 the leading Italian city-states not only functioned as great powers in European politics (McNeill 1984: 78), but had revenues that compared very favorably with the revenues of the most successful dynastic states of western and northwestern Europe (Braudel 1984: 120). They thereby showed that even small territories could become huge containers of power by pursuing onesidedly the accumulation of riches rather than the acquisition of territories and subjects. Henceforth, "considerations of plenty" would become central to "considerations of power" throughout Europe.

The Italian city-states, however, never attempted individually or collectively a purposive transformation of the medieval system of rule.

For reasons that will become evident later, they had neither the desire nor the capabilities to undertake such a transformative action. Two more centuries had to elapse – from about 1450 to about 1650 (Braudel's "long" sixteenth century) – before a new kind of capitalist state, the United Provinces, would be presented with, and seize, the opportunity to transform the European system of rule to suit the requirements of the accumulation of capital on a world scale.

This new situation arose as a result of a quantum leap in the European power struggle, precipitated by the attempts of territorialist rulers to incorporate within their domains, or to prevent others from incorporating, the wealth and power of the Italian city-states. As it turned out, outright conquest proved impossible, primarily because of competition between the territorialist rulers themselves. In this struggle for the impossible, however, select territorial states – Spain and France in particular – developed new war-making techniques (the Spanish *tercios*, professional standing armies, mobile siege cannons, new fortification systems, and so on), which gave them a decisive power advantage *vis-à-vis* other rulers, including the suprastatal and substatal authorities of the medieval system of rule (cf. McNeill 1984: 79–95).

The intensification of the European power struggle was soon followed by its geographical expansion, because some territorialist rulers sought more roundabout ways to incorporate within their domains the wealth and power of the Italian city-states. Instead of, or in addition to, seeking the annexation of the city-states, these rulers tried to conquer the very sources of their wealth and power: the circuits of long-distance trade.

More specifically, the fortunes of the Italian city-states in general and of Venice in particular rested above all on monopolistic control over a crucial link in the chain of commercial exchanges that connected Western Europe to India and China via the world of Islam. No territorial state was powerful enough to take over that monopoly, but select territorialist rulers could and did attempt to establish a more direct link between Western Europe and India and China in order to divert money flows and supplies from the Venetian to their own trade circuits. Portugal and Spain, led and assisted by Genoese capitalist agencies crowded out by Venice from the most profitable traffics of the Mediterranean, took the lead. While Portugal succeeded, Spain failed but stumbled across an entirely new source of wealth and power: the Americas.

The intensification and global expansion of the European power struggle fed on one another and thereby engendered a vicious/virtuous circle – vicious for its victims, virtuous for its beneficiaries – of more and more massive resources and of increasingly sophisticated and costly techniques of state- and war-making deployed in the power struggle. Techniques which had been developed in the struggle within Europe were

deployed to subjugate extra-European territories and communities; and the wealth and power originating from the subjugation of extra-European territories and communities were deployed in the struggle within Europe (McNeill 1984: 94–5, 100ff).

The state that initially benefited most from this vicious/virtuous circle was Spain, the only state that was simultaneously a protagonist of the power struggle on the European and on the extra-European fronts. Throughout the sixteenth century, the power of Spain exceeded that of all other European states by a good margin. This power, however, far from being used to oversee a smooth transition to the modern system of rule, became an instrument of the Habsburg Imperial House and of the papacy to save what could be saved of the disintegrating medieval system of rule.

In reality, little or nothing could be saved because the quantum leap in the European power struggle since the middle of the fifteenth century had taken the disintegration of the medieval system beyond the point of no return. Out of that struggle new realities of power had emerged in northwestern Europe which, to varying degrees, had subsumed the capitalist logic of power within the territorialist logic. The result was the formation of compact mini-empires, best exemplified by the French, English, and Swedish dynastic states, which, individually, could not match the power of Spain but, collectively, could not be subordinated to any old or new central political authority. The attempt of Spain, in conjunction with the papacy and the Habsburg Imperial House, to unmake or subordinate these new realities of power not only failed, but translated into a situation of systemic chaos which created the conditions for the rise of Dutch hegemony and the final liquidation of the medieval system of rule.

For conflict quickly escalated beyond the regulative capacities of the medieval system of rule and turned its institutions into so many new causes of conflict. As a consequence, the European power struggle became an ever-more negative-sum game in which all or most of the European rulers began to realize that they had nothing to gain and everything to lose from its continuation. The most important factor here was the sudden escalation of system-wide social conflict into a serious threat to the collective power of European rulers.

As Marc Bloch once wrote, "[the] peasant revolt was as common in early modern Europe as strikes are in industrial societies today" (cited in Parker and Smith 1985). But in the late sixteenth century and, above all, in the first half of the seventeenth century, this rural unrest was compounded by urban revolts on an unprecedented scale – revolts that were directed not against the "employers" but against the state itself. The Puritan Revolution in England was the most dramatic episode of this explosive combination of rural and urban revolts, but almost all European rulers were directly affected or felt seriously threatened by the social upheaval (Parker and Smith 1985:12ff).

This system-wide intensification of social conflict was a direct result of the previous and contemporaneous escalation of armed conflicts among rulers. From about 1550 to about 1640, the number of soldiers mobilized by the great powers of Europe more than doubled, while from 1530 to 1630 the cost of putting each of these soldiers in the field increased on average by a factor of 5 (Parker and Smith 1985: 14). This escalation of protection costs led to a sharp increase in the fiscal pressure on subjects which, in turn, triggered many of the seventeenth-century revolts (Steensgaard 1985: 42–4).

Alongside this escalation in protection costs, an escalation in the ideological struggle occurred. The progressive breakdown of the medieval system of rule had led to a mixture of religious innovations and religious restorations from above, following the principle *cuius regio eius religio*, which provoked popular resentment and rebellions against both (Parker and Smith 1985: 15–18). As rulers turned religion into an instrument of their mutual power struggles, subjects followed their lead and turned religion into an instrument of insurrection against rulers.

Last but not least, the escalation of armed conflicts between rulers disrupted the trans-European networks of trade on which they depended to obtain means of war and subjects depended for their livelihood. The costs and risks of moving goods across political jurisdictions increased dramatically, and supplies were diverted from the provision of means of livelihood to the provision of means of war. It is plausible to suppose that this disruption and diversion of trade flows contributed far more decisively than demographic and climatic factors to the sudden worsening problem of vagrancy and to the "subsistence crisis" which constitute the social and economic backdrop of the general crisis of legitimacy of the seventeenth century (cf. Braudel and Spooner 1967; Romano 1985; Goldstone 1991).

Whatever the tendencies that caused popular insurgency, the result was a heightened consciousness among European rulers of their common power interest *vis-à-vis* their subjects. As James I put it at an early stage of the general crisis, there existed "an implicit tie amongst kings which obligeth them, though there may be no other interest or particular engagement, to stick unto and right one another upon insurrection of subjects" (quoted in Hill 1958: 126). Under normal circumstances, this "implicit tie" had little or no influence on the conduct of rulers. But on those occasions in which the authority of all or most rulers was seriously challenged by their subjects – as it was in the middle of the seventeenth century – the general interest of rulers in preserving their collective power over their subjects overshadowed their quarrels and mutual antagonisms.

It was under these circumstances that the United Provinces became hegemonic by leading a large and powerful coalition of dynastic states towards the liquidation of the medieval system of rule and the establishment of the modern interstate system. In the course of their earlier struggle for national independence from Spain, the Dutch had already established a strong intellectual and moral leadership over the dynastic states of northwestern Europe, which were among the main beneficiaries of the disintegration of the medieval system of rule. As systemic chaos increased during the Thirty Years War, "[t]he threads of diplomacy [came to be] woven and unwoven at the Hague" (Braudel 1984: 203) and Dutch proposals for a major reorganization of the pan-European system of rule found more and more supporters among European rulers until Spain was completely isolated.

With the Peace of Westphalia of 1648, a new world system of rule thus emerged:

> The idea of an authority or organization above sovereign states is no longer. What takes its place is the notion that all states form a world-wide political system or that, at any rate, the states of Western Europe form a single political system. This new system rests on international law and the balance of power, a law operating between rather than above states and a power operating between rather than above states. (Gross 1968: 54–5)

The world system of rule created at Westphalia had a social purpose as well. As rulers legitimated their respective absolute rights of government over mutually exclusive territories, the principle was established that civilians were not party to the quarrels between sovereigns. The most important application of this principle was in the field of commerce. In the treaties that followed the Settlement of Westphalia a clause was inserted that aimed at restoring freedom of commerce by abolishing barriers to trade which had developed in the course of the Thirty Years War. Subsequent agreements introduced rules to protect the property and commerce of non-combatants. The limitation of reprisals in the interest of trade typical of the northern Italian system of city-states (Sereni 1943: 43–9) thus found its way into the norms and rules of the European system of nation-states.

An inter-statal regime was thus established in which the effects of war-making between sovereigns on the everyday life of subjects were minimized:

> The 18th century witnessed many wars; but in respect of the freedom and friendliness of intercourse between the educated classes in the principal European countries, with French as the recognized common language, it was the most "international" period of modern history, and civilians could pass to and fro and transact their business freely with one another while their respective sovereigns were at war. (Carr 1945: 4)

The systemic chaos of the early seventeenth century was thus transformed into a new anarchic order. The considerable freedom granted to private enterprise to organize commerce peacefully across political jurisdictions even in wartime reflected not only the general interest of rulers and subjects in dependable supplies of means of war and means of livelihood, but the particular interests of the Dutch capitalist oligarchy in an unfettered accumulation of capital. This reorganization of political space in the interest of capital accumulation marks the birth not just of the modern interstate system, but also of capitalism as world system. The reasons why it took place in the seventeenth century under Dutch leadership instead of in the fifteenth century under Venetian leadership are not far to seek.

The most important reason, which encompasses all the others, is that in the fifteenth century systemic chaos had not attained the scale and intensity that two centuries later induced European rulers to recognize their general interest in the liquidation of the medieval system of rule. The Venetian capitalist oligarchy had itself been doing so well within that system that it had no interest whatsoever in its liquidation. In any event, the Italian city-state system was a regional sub-system continually torn apart by the greater and lesser powers of the wider world system to which it belonged. Political rivalries and diplomatic alliances could not be confined to the sub-system. They systematically brought into play territorialist rulers who kept the capitalist oligarchies of northern Italy permanently on the defensive.

By the early seventeenth century, in contrast, the resurgence of systemic chaos created both a general interest in a major rationalization of the power struggle on the part of European rulers and a capitalist oligarchy with the motivations and the capabilities necessary to take the lead in serving that general interest. The Dutch capitalist oligarchy was in important respects a replica of the Venetian capitalist oligarchy. Like the latter, it was the bearer of a capitalist logic of power, and as such a leader in the management of the balance of power and in diplomatic initiatives and innovations. Unlike the latter, however, it was a product rather than a factor of the quantum leap in the European power struggle prompted by the emergence of capitalist states in northern Italy. This difference had several important implications.

First, the scale of operation, and hence the power, of the Dutch capitalist oligarchy in European and world politics was much greater than that of Venice. Venice's wealth and power rested on a circuit of trade,

which was itself a link in a much longer circuit, which Venice itself did not control. As we have seen, this local link could be and was superseded by more roundabout circuits of trade. The wealth and power of Holland, in contrast, were based on commercial and financial networks which the Dutch capitalist oligarchy had carved out of the seaborne and colonial empires through which the territorialist rulers of Portugal and Spain, in alliance with the Genoese capitalist oligarchy, had superseded the wealth and power of Venice.

These networks encircled the world and could not easily be bypassed or superseded. In fact, the wealth and power of the Dutch capitalist oligarchy rested more on its control over world financial networks than on commercial networks. This meant that it was less vulnerable than the Venetian capitalist oligarchy to the establishment of competing trade routes or to increased competition on a given route. As competition in long-distance trade intensified, the Dutch oligarchs could recoup their losses and find a new field of profitable investment in financial speculation. The Dutch capitalist oligarchy therefore had the power to rise above the competition and turn it to its own advantage.

Second, the interests of the Dutch capitalist oligarchy clashed far more fundamentally with the interests of the central authorities of the medieval system of rule than the interests of the Venetian capitalist oligarchy ever did. As the history of the "long" sixteenth century demonstrated, the wealth and power of Venice were threatened more fundamentally by the increasing power of the dynastic states of south- and northwestern Europe which were emerging from the disintegration of the medieval system of rule than they were by the waning power of the papacy and the Imperial House.

The Dutch capitalist oligarchy, in contrast, had a strong common interest with the emerging dynastic states in the liquidation of the claims of pope and emperor to a suprastatal moral and political authority as embodied in the imperial pretensions of Spain. As a consequence of its eighty-year-long war of independence against Imperial Spain, the Dutch became a champion and organizer of the proto-nationalist aspirations of dynastic rulers. At the same time, they continuously sought ways and means to prevent conflict from escalating beyond the point where the commercial and financial foundations of their wealth and power would be seriously undermined. In pursuing its own interest, the Dutch capitalist oligarchy thus came to be perceived as the champion not just of independence from the central authorities of the medieval system of rule but also of a general interest in peace which the latter were no longer able to serve.

Third, the war-making capabilities of the Dutch capitalist oligarchy far surpassed those of the Venetian oligarchy. The capabilities of the latter

were closely related to the geographical position of Venice and had little use outside that position, particularly after the great advances in war-making techniques of the "long" sixteenth century. The capabilities of the Dutch oligarchy, in contrast, were based on successful front-line participation in that process. As a matter of fact, the Dutch were leaders not just in the accumulation of capital but also in the rationalization of military techniques.

By rediscovering and bringing to perfection long-forgotten Roman military techniques, Maurice of Nassau, Prince of Orange, achieved for the Dutch army in the early seventeenth century what scientific management would achieve for US industry two centuries later (cf. McNeill 1984: 127–39; van Doorn 1975: 9ff). Siege techniques were transformed (1) to increase the efficiency of military labor-power, (2) to cut costs in terms of casualties, and (3) to facilitate the maintenance of discipline in the army's ranks. Marching and the loading and firing of guns were standardized, and drilling was made a regular activity. The army was divided into smaller tactical units, the numbers of commissioned and non-commissioned officers were increased, and lines of command rationalized:

> In this way an army became an articulate organism with a central nervous system that allowed sensitive and more or less intelligent response to unforseen circumstances. Every movement attained a new level of exactitude and speed. The individual movements of soldiers when firing and marching as well as the movements of batallions across the battlefield could be controlled and predicted as never before. A well-drilled unit, by making every motion count, could increase the amount of lead projected against the enemy per minute of battle. The dexterity and resolution of individual infantry men scarcely mattered any more. Prowess and personal courage all but disappeared beneath an armor-plated routine. . . . Yet troops drilled in the Maurician fashion automatically exhibited superior effectiveness in battle. (McNeill 1984: 130)

The significance of this innovation is that it neutralized the advantages of scale enjoyed by Spain and thereby tended to equalize relative military capabilities within Europe. By actively encouraging the adoption of these new techniques by its allies, the United Provinces created the conditions of substantive equality among European states, which became the premiss of the future Westphalia System. And of course, by so doing, it strengthened its intellectual and moral leadership over the dynastic rulers who were seeking the legitimation of their absolute rights of government.

Fourth and last, the state-making capabilities of the Dutch capitalist oligarchy were far greater than those of the Venetian oligarchy. The exclusiveness of capitalist interests in the organization and management

of the Venetian state was the main source of its power but was also the main limit of that power. For this exclusiveness kept the political horizon of the Venetian oligarchy within the limits set by cost–benefit analysis and double-entry bookkeeping. That is to say, it kept Venetian rulers aloof from the political and social issues that were tearing apart the world within which they operated.

The state-making capabilities of the Dutch capitalist oligarchy, in contrast, had been forged in a long struggle of emancipation from Spanish imperial rule. In order to succeed in this struggle, it had to forge an alliance and share power with dynastic interests (the House of Orange) and had to ride the tiger of popular rebellion (Calvinism). As a consequence, the power of the capitalist oligarchy within the Dutch state was far less absolute than it had been within the Venetian state. But for this very reason the Dutch ruling group developed much greater capabilities than Venetian rulers ever had to pose and solve the problems around which the European power struggle raged. The United Provinces thus became hegemonic in virtue of being less rather than more capitalist than Venice.

British Hegemony and Free-Trade Imperialism

The Dutch never governed the system that they had created. As soon as the Westphalia System was in place, the United Provinces began losing its recently acquired world-power status. 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 this leadership was typically what we have called leadership against the leader's will since it undermined rather than enhanced Dutch power. Dutch world hegemony was thus a highly ephemeral formation which was unmade as soon as it was made.

In terms of world power, the principal beneficiaries of the new system of rule were the United Provinces' former allies, France and England. For the next century and a half – from the outbreak of the Anglo-Dutch Wars in 1652 (a mere four years after the Settlement of Westphalia) to the end of the Napoleonic Wars in 1815 – the interstate system was dominated by the struggle for world supremacy between these two great powers.

This long-drawn-out conflict developed in three partly overlapping phases which replicated in some respects the phases of struggle of the "long" sixteenth century. The first phase was once again characterized by the attempts of territorialist rulers to incorporate within their domains the leading capitalist state. Just as France and Spain had attempted to

conquer the northern Italian city-states in the late fifteenth century, so in the late seventeenth century England and above all France attempted to internalize within their own domains the networks of trade and power of the United Provinces.

As Colbert emphasized in his advice to Louis XIV, "[if] the king were to subjugate all the United Provinces to his authority, their commerce would become the commerce of the subjects of his majesty, and there would be nothing more to ask" (quoted in Anderson 1974: 36–7). The problem with this advice lies in the "if" clause. Even though the strategic capabilities of seventeenth-century France (or for that matter England) greatly exceeded the capabilities of their fifteenth-century counterparts, the strategic capabilities of the United Provinces exceeded those of the leading capitalist states of the fifteenth century by an even greater margin. Notwithstanding a short-lived joint effort, France and England failed to subjugate the Dutch. Once again, competition between the would-be conquerors proved an insuperable obstacle on the road to conquest.

As these attempts failed, the struggle entered a second phase, in which the efforts of the two rivals became increasingly focused on incorporating the sources of the wealth and power of the capitalist state rather than the capitalist state itself. Just as Portugal and Spain had struggled for control over the traffic with the East, so France and England struggled for control over the Atlantic. Differences between the two struggles, however, are as important as the analogies.

Both France and England were latecomers in the global power struggle. This lent them some advantages. The most important was that by the time France and England entered the business of territorial expansion in the extra-European world, the spread of Maurician "scientific management" to the European armies was beginning to turn their comparative advantage over the armies of extra-European rulers into an unbridgeable gulf. The power of the Ottoman empire had begun to decline irreversibly:

> Further East, the new style of training soldiers became important when European drill-masters began to create miniature armies by recruiting local manpower for the protection of French, Dutch, and English trading stations on the shores of the Indian Ocean. By the eighteenth century, such forces, however minuscule, exhibited a clear superiority over the unwieldy armies that local rulers were accustomed to bring into the field. (McNeill 1984: 135)

To be sure, it was not until the nineteenth century that this superiority became sufficiently overwhelming to translate into major territorial conquests in the Indian subcontinent and into the subordination of Imperial China to Western commands. But already in the eighteenth century the superiority was sufficient to enable the latecomers – and

Britain in particular – to conquer some of the most abundant sources of tribute of the collapsing Mughal empire – most notably Bengal – and thus go beyond the mere establishment of an Asian seaborne empire as the Portuguese and the Dutch had done. The emerging gulf between Western and non-Western military capabilities was none the less of little help to the latecomers in displacing the Portuguese, the Spaniards, and, above all, the Dutch from established positions at the crossroads of world commerce. In order to catch up with and overtake the early comers, the latecomers had radically to restructure the political geography of world commerce. This is precisely what was achieved by the new synthesis of capitalism and territorialism brought into being by French and British mercantilism in the eighteenth century.

This had three major and closely interrelated components: settler colonialism, capitalist slavery, and economic nationalism. All three components were essential to the reorganization of world political-economic space, but settler colonialism was probably the leading element in the combination. British rulers in particular relied heavily on the private initiative of their subjects in countering the advantages of early comers in overseas expansion:

> Although they could not match the Dutch in financial acumen and in the size and efficiency of their merchant fleet, the English believed in founding settlement colonies and not just ports of call en route to the Indies. . . . Besides joint-stock or chartered companies the English developed such expedients for colonization as the proprietory colony analogous to the Portuguese captaincies in Brazil, and Crown colonies nominally under direct royal control. What English colonies in America lacked in natural resources and uniformity they made up for in the number and industriousness of the colonists themselves. (Nadel and Curtis 1964: 9–10)

Capitalist slavery was partly a condition and partly a result of the success of settler colonialism. For the expansion in the number and industriousness of the colonists was continually limited by, and continually recreated, shortages of labor-power which could not be satisfied by relying exclusively, or even primarily, on the supplies engendered spontaneously from within the ranks of the settler populations or extracted forcibly from the indigenous populations. This chronic labor shortage enhanced the profitability of capitalist enterprises engaged in the procurement (primarily in Africa), transport, and productive use (primarily in the Americas) of slave labor. As Robin Blackburn (1988: 13) notes, "New World slavery solved the colonial labour problem at a time when no other solution was in sight." The solution of the colonial labor problem, in turn, became the leading factor in the expansion of the infrastructure and of

the outlets necessary to sustain the settlers' productive efforts.

Settler colonialism and capitalist slavery were necessary but insufficient conditions of the success of French and British mercantilism in radically restructuring the global political economy. The third key ingredient, economic nationalism, had two main aspects. The first was the endless accumulation of monetary surpluses in colonial and interstate commerce – an accumulation with which mercantilism is often identified. The second was national or, better, domestic economy-making. As underscored by Gustav von Schmoller, "in its inmost kernel [mercantilism was] nothing but state-making – not state-making in a narrow sense, but state-making and national-economy-making at the same time" (quoted in Wilson 1958: 6).

National economy-making brought to perfection on a greatly enlarged scale the practice of making wars pay for themselves by turning protection costs into revenues, which the Italian city-states had pioneered three centuries earlier. Partly through commands to state bureaucracies and partly through incentives to private enterprise, the rulers of France and of the United Kingdom internalized within their domains as many of the growing number of activities that, directly or indirectly, entered as inputs in war-making and state-making as was feasible. In this way they managed to turn into tax revenues a much larger share of protection costs than the Italian city-states, or for that matter the United Provinces, ever did or could have done. By spending these enhanced tax revenues within their domestic economies, they created new incentives and opportunities to establish ever new linkages between activities and thus make wars pay for themselves more and more.

What was happening, in fact, was not that wars were "paying for themselves," but that an increasing number of civilians were mobilized to sustain indirectly, and often unknowingly, the war-making and state-making efforts of rulers. War-making and state-making were becoming an increasingly roundabout business which involved an ever-growing number, range, and variety of seemingly unrelated activities. The capacity of mercantilist rulers to mobilize the energies of their civilian subjects in undertaking and carrying out these activities was not unlimited. On the contrary, it was strictly limited by their ability to appropriate the benefits of world commerce, of settler colonialism, and of capitalist slavery, and to turn these benefits into adequate rewards for the entrepreneurship and productive efforts of their metropolitan subjects (cf. Tilly 1990: 82–3).

In breaking out of these limits British rulers had a decisive comparative advantage over all their competitors, the French included. This was geopolitical, and resembled the comparative advantage of Venice at the height of its power:

> Both in overseas trade and in naval strength, Britain gained supremacy, favored, like Venice, by two interacting factors: her island position and the new role which fell into her hands, the role of intermediary between two worlds. Unlike the continental powers, Britain could direct her undivided strength toward the sea; unlike her Dutch competitors, she did not have to man a land front. (Dehio 1962: 71)

As we shall see in chapter 3, England/Britain "became" a powerful island through a two-centuries-long and painful process of "learning" how to turn a fundamental geopolitical handicap in the continental power struggle *vis-à-vis* France and Spain into a decisive competitive advantage in the struggle for world commercial supremacy. By the mid-seventeenth century, however, this process was for all practical purposes complete. From then on, the channeling of British energies and resources towards overseas expansion, while the energies and resources of its European competitors were locked up in struggles close at home, generated a process of circular and cumulative causation. British successes in overseas expansion increased the pressure on the states of continental Europe to keep up with Britain's growing world power. But these successes also provided Britain with the means necessary to manage the balance of power in continental Europe in order to keep its rivals busy close to home. Over time, this virtuous/vicious circle put Britain in a position where it could eliminate all competitors from overseas expansion and, at the same time, become the undisputed master of the European balance of power.

When Britain won the Seven Years War (1756–63), the struggle with France for world supremacy was over. But it did not thereby become world-hegemonic. On the contrary, as soon as the struggle for world supremacy was over, conflict entered a third phase, characterized by increasing systemic chaos. Like the United Provinces in the early seventeenth century, Britain became hegemonic by creating a new world order out of this systemic chaos.

As in the early seventeenth century, systemic chaos was the result of the intrusion of social conflict into the power struggles of rulers. There were, however, important differences between the two situations. The most important is the much greater degree of autonomy and effectiveness demonstrated by the rebellious subjects in the late eighteenth and early nineteenth centuries in comparison with the early seventeenth century.

To be sure, the new wave of system-wide rebelliousness had its deeper origins in the struggle for the Atlantic, as we shall see. Yet once it exploded, rebellion created the conditions for a renewal of Anglo-French rivalry on entirely new foundations, and rebellion continued to rage for about thirty years after this new rivalry had ceased. Taking the period

1776–1848 as a whole, this second wave of rebelliousness resulted in a thorough transformation of ruler-subject relations throughout the Americas and in most of Europe and, second, in the establishment of an entirely new kind of world hegemony (British free-trade imperialism) which thoroughly reorganized the interstate system to accommodate that transformation.

The deeper origins of this wave of rebelliousness can be traced to the previous struggle for the Atlantic because its agents were precisely the social forces that had been brought into being and forged into new communities by that struggle: the colonial settlers, the plantation slaves, and the metropolitan middle classes. Rebellion began in the colonies with the American Declaration of Independence in 1776 and hit the United Kingdom first. French rulers immediately seized the opportunity to initiate a revanchist campaign. However, this quickly backfired with the Revolution of 1789. The energies released by the revolution were channeled under Napoleon into a redoubling of French revanchist efforts. And these, in turn, led to a generalization of settler, slave, and middle-class rebelliousness (cf. Hobsbawm 1962; Wallerstein 1988; Blackburn 1988; Schama 1989).

In the course of these interstate and intra-state struggles widespread violations of the principles, norms, and rules of the Westphalia System occurred. Napoleonic France in particular trampled on the absolute rights of government of European rulers both by fomenting revolt from below and by imposing imperial commands from above. At the same time, it encroached on the property rights and freedoms of commerce of non-combatants through expropriations, blockades, and a command economy spanning most of continental Europe.

The United Kingdom first became hegemonic by leading a vast alliance of primarily dynastic forces in the struggle against these infringements on their absolute rights of government and for the restoration of the Westphalia System. This restoration was successfully accomplished with the Settlement of Vienna of 1815 and the subsequent Congress of Aix-la-Chapelle of 1818. Up to this point British hegemony was a replica of Dutch hegemony. Just as the Dutch had successfully led the about-to-be-born interstate system in the struggle against the imperial pretensions of Habsburg Spain, so the British successfully led the about-to-be-destroyed interstate system in the struggle against the imperial pretensions of Napoleonic France (cf. Dehio 1962).

Unlike the United Provinces, however, the United Kingdom went on to govern the interstate system and, in doing so, it undertook a major reorganization of that system aimed at accommodating the new realities of power released by the continuing revolutionary upheaval. The system that came into being is what John Gallagher and Ronald Robinson

(1953) called free-trade imperialism – a world-system of rule which both expanded and superseded the Westphalia System. This is noticeable at three different but interrelated levels of analysis.

First, a new group of states joined the group of dynastic and oligarchic states which had formed the original nucleus of the Westphalia System. This new group consisted primarily of states controlled by national communities of property-holders which had succeeded in gaining independence from old and new empires. Interstate relations thus began to be governed not by the personal interests, ambitions, and emotions of monarchs but by the collective interests, ambitions, and emotions of these national communities (Carr 1945: 8).

This "democratization" of nationalism was accompanied by an unprecedented centralization of world power in the hands of a single state, the United Kingdom. In the expanded interstate system that emerged out of the revolutionary upheaval of 1776–1848, only the United Kingdom was simultaneously involved in the politics of all the regions of the world and, more importantly, held a commanding position in most of them. For the first time, the objective of all previous capitalist states to be the master rather than the servant of the global balance of power was fully, if temporarily, realized by the leading capitalist state of the epoch.

In order to manage the global balance of power more effectively, the United Kingdom took the lead in tightening the loose system of consultation between the great powers of Europe which had been in operation since the Peace of Westphalia. The result was the Concert of Europe which, from the start, was primarily an instrument of British governance of the continental balance of power. For about thirty years after the Peace of Vienna the Concert of Europe played a secondary role in the politics of continental Europe relative to the "hierarchies of blood and grace" that had formed the Holy Alliance. But as the Alliance disintegrated under the rising pressure of democratic nationalism, the Concert quickly emerged as the main instrument of regulation of interstate relations in Europe (cf. Polanyi 1957: 7–9).

Second, the disintegration of colonial empires in the Western world was accompanied and followed by their expansion in the non-Western world. At the beginning of the nineteenth century Western states claimed 55 per cent but actually held about 35 per cent of the earth's land surface. By 1878 the latter proportion had risen to 67 per cent, and by 1914 to 85 per cent (Magdoff 1978: 29, 35). "No other set of colonies in history was as large," notes Edward Said (1993: 8), "more so totally dominated, none so unequal in power to the Western metropolis."

Britain took the lion's share of this territorial conquest. In so doing, it resurrected imperial rule on a scale the world had never previously seen.

This resurgence of imperial rule is indeed the main reason for designating Britain's nineteenth-century world hegemony with the expression free-trade *imperialism* – an expression which we use to underscore not just Britain's governance of the world system through the practice and ideology of free trade, as Gallagher and Robinson do, but also and especially the imperial foundations of Britain's free trade regime of rule and accumulation on a world scale. No territorialist ruler had ever before incorporated within its domains so many, so populous, and so far-flung territories as the United Kingdom did in the nineteenth century. Nor had any territorialist ruler ever before forcibly extracted in so short a time so much tribute – in labor-power, in natural resources, and in means of payments – as the British state and its clients did in the Indian subcontinent in the course of the nineteenth century. Part of this tribute was used to buttress and expand the coercive apparatus through which more and more non-Western subjects were added to the British territorial empire. But another, equally conspicuous part was siphoned off in one form or another to London, to be recycled in the circuits of wealth through which British power in the Western world was continually reproduced and expanded. The territorialist and the capitalist logics of power (TMT′ and MTM′) thus cross-fertilized and sustained one another.

The recycling of imperial tribute extracted from the colonies into capital invested all over the world enhanced London's comparative advantage as a world financial center *vis-à-vis* competing centers such as Amsterdam and Paris (cf. Jenks 1938). This comparative advantage made London the natural home of *haute finance* – a closely knit body of cosmopolitan financiers whose global networks were turned into yet another instrument of British governance of the interstate system:

> Finance . . . acted as a powerful moderator in the councils and policies of a number of smaller sovereign states. Loans, and the renewal of loans, hinged upon credit, and credit upon good behavior. Since, under constitutional government (unconstitutional ones were severely frowned upon), behavior is reflected in the budget and the external value of the currency cannot be detached from appreciation of the budget, debtor governments were well advised to watch their exchanges carefully and to avoid policies which might reflect upon the soundness of the budgetary position. This useful maxim became a cogent rule of conduct once a country had adopted the gold standard, which limited permissible fluctuations to a minimum. Gold standard and constitutionalism were the instruments which made the voice of the City of London heard in many smaller countries which had adopted these symbols of adherence to the new international order. The Pax Britannica held its sway sometimes by the ominous poise of heavy ship's cannon, but more frequently it prevailed by the timely pull of a thread in the international monetary network. (Polanyi 1957: 14)

Finally, the expansion and supersession of the Westphalia System found expression in an entirely new instrument of world government. The Westphalia System was based on the principle that there was no authority operating above the interstate system. Free-trade imperialism, in contrast, established the principle that the laws operating within and between states were subject to the higher authority of a new, metaphysical entity – a world market ruled by its own "laws" – allegedly endowed with supernatural powers greater than anything pope and emperor had ever mastered in the medieval system of rule. By presenting its world supremacy as the embodiment of this metaphysical entity, the United Kingdom succeeded in expanding its power in the interstate system well beyond what was warranted by the extent and effectiveness of its coercive apparatus.

This power was the result of the United Kingdom's *unilateral* adoption of a free trade practice and ideology. A regime of multilateral free trade began only in 1860 with the signing of the Anglo-French Treaty of Commerce, and for all practical purposes ended in 1879 with the "new" German protectionism. But from the mid-1840s to 1931, Britain unilaterally kept its domestic market open to the products of the whole world (Bairoch 1976a). Combined with territorial expansion overseas and with the development of a capital goods industry at home, this policy became a powerful instrument of governance of the entire world-economy:

> The colonization of the empty spaces [sic], the development of the machine driven industry dependent on coal and the opening up of world-wide communications through railways and shipping services proceeded apace under British leadership, and stimulated everywhere the emergence and development of nations and national consciousness; and the counterpart of this "expansion of England" was the free market provided in Britain from the 1840s onwards for the natural products, foodstuffs and raw materials of the rest of the world. (Carr 1945: 13–14)

By opening up their domestic market, British rulers created world-wide networks of dependence on, and allegiance to, the expansion of wealth and power of the United Kingdom. This control over the world market, combined with mastery of the global balance of power and a close relationship of mutual instrumentality with *haute finance*, enabled the United Kingdom to govern the interstate system as effectively as a world empire. The result was "a phenomenon unheard of in the annals of Western civilization, namely, a hundred years' [European] peace – 1815–1914" (Polanyi 1957: 5).

This reflected the unprecedented hegemonic capabilities of the United Kingdom. Its coercive apparatus – primarily its navy and colonial armies – and its island position no doubt endowed it with a decisive comparative advantage relative to all its rivals in the European and global power struggle. But, however great, this advantage cannot possibly account for the extraordinary capacity to restructure the world – not just the European interstate system – to suit its national interests, which Britain demonstrated in the mid-nineteenth century.

This extraordinary capacity was a manifestation of hegemony – that is, of the capacity to claim with credibility that the expansion of UK power served not just UK national interest but a "universal" interest as well. Central to this hegemonic claim was a distinction between the power of rulers and the "wealth of nations" subtly drawn in the liberal ideology propagated by the British intelligentsia. In this ideology, the expansion of the power of British rulers relative to other rulers was presented as the motor force of a general expansion of the wealth of nations. Free trade might undermine the sovereignty of rulers, but it would at the same time expand the wealth of their subjects, or at least of their propertied subjects.

The appeal and credibility of this claim were based on systemic circumstances created by the revolutionary upheavals of 1776–1848. For the national communities that had risen to power in the Americas and in many parts of Europe in the course of these upheavals were primarily communities of property-holders, whose main concern was with the monetary value of their assets rather than with the autonomous power of their rulers. It was these communities that formed the "natural" constituency of British free trade hegemony.

At the same time, the revolutionary upheavals of 1776–1848 had promoted changes within the United Kingdom itself which enhanced the capacity of its rulers to satisfy this system-wide demand for "democratic" wealth. The most important of these changes was the industrial revolution, which took off under the impact of the French Revolutionary and Napoleonic Wars. For our present purposes, the main significance of this revolution was that it greatly enhanced the relationship of complementarity which linked the enterprises of British subjects to the enterprises of subjects of other states, particularly of the states that had emerged out of the settlers' rebellion against British rule in North America. As a result, British rulers began to realize that their lead in domestic economy-making gave them a considerable advantage in the use of subject-subject relations across political jurisdictions as invisible instruments of rule over other sovereign states. It was this realization more than anything else that persuaded British rulers after the Napoleonic Wars to sustain and protect the forces of democratic nationalism, first in the Americas, later in Europe, against the reactionary tendencies of its former dynastic allies (Aguilar 1968: 23). And as the national power of these

forces increased, so did the capabilities of the British ruling groups to lead and govern the interstate system in order to expand further their wealth, power, and prestige at home and abroad.

The world power achievements of nineteenth-century Britain were unprecedented. Nevertheless, the novelty of the developmental path that led to these achievements should not be exaggerated. For Britain's free-trade imperialism simply fused in a harmonious synthesis two seemingly divergent developmental paths which had been opened up long before by the ruling groups of other states. What was new was the combination of the paths, not the paths themselves.

One of these paths had been opened up by Venice centuries earlier. Indeed, to be the Venice of the nineteenth century was still the objective advocated for Britain by leading members of its business community at the end of the Napoleonic Wars. And the same analogy was evoked again – albeit with negative connotations – when the nineteenth-century expansion of British wealth and power began reaching its limits (Ingham 1984: 9).

If we focus on metropolitan domains and on relations between European states, then this is undoubtedly an apt analogy. Britain's comparatively small territory, its island position at the main intersection of world trade, its naval supremacy, the entrepôt-like structure of its domestic economy – all were traits that made it look like an enlarged replica of the Venetian Republic, or for that matter of the United Provinces, at the height of their respective power. Admittedly, Britain's metropolitan domains were larger, and enclosed much greater demographic and natural resources than the metropolitan domains of its Venetian and Dutch predecessors. But this difference could be taken as corresponding approximately to the increased size and resources of the capitalist world-economy in the nineteenth century, compared with the earlier epochs when Venetian and Dutch power rose and declined.

The second developmental path was altogether different, and can be perceived only by widening our angle of vision to encompass overseas domains and relations between political structures world-wide. From this wider angle of vision, nineteenth-century Britain appears to have followed in the footsteps not of Venice or the United Provinces, but of Imperial Spain. As Paul Kennedy (1987: 48) has observed, like the Habsburg bloc three centuries earlier, the nineteenth-century British empire "was a conglomeration of widely scattered territories, a political-dynastic *tour de force* which required enormous sustained resources of material and ingenuity to keep going."

As we shall detail in chapter 3, this similarity between the spatial configurations of the nineteenth-century British empire and the sixteenth-century Spanish empire was matched by a striking similarity between the strategies and structures of the cosmopolitan networks of

long-distance trade and high finance which assisted the power pursuits of the ruling groups of the two imperial formations. Nor were these the only similarities. Even the notion of a free trade system encompassing multiple sovereign states seems to have originated in Imperial Spain (Nussbaum 1950: 59–62).

In short, the expansion and supersession of the Westphalia System which was realized by and through Britain's free trade imperialism did not involve simply a "progression" towards larger and more complex political structures along the developmental path opened up and pursued by the leading capitalist states of previous epochs. They also involved "regression" towards strategies and structures of world-scale rule and accumulation which seemed to have been made obsolete by earlier developments along that path. In particular, the creation in the nineteenth century of a part-capitalist and part-territorialist imperial structure, whose global power far surpassed anything the world had ever seen, shows that the formation and expansion of the capitalist world-economy has involved not so much a supersession as a continuation by other, more effective means of the imperial pursuits of pre-modern times.

For the capitalist world-economy as reconstituted under British hegemony in the nineteenth century was as much a "world empire" as it was a "world-economy" – an entirely new kind of world empire to be sure, but a world empire none the less. The most important and novel feature of this world empire *sui generis* was the extensive use by its ruling groups of a quasi-monopolistic control over universally accepted means of payments ("world money") to ensure compliance to their commands, not just within their widely scattered domains, but by the sovereigns and subjects of other political domains as well. The reproduction of this quasi-monopolistic control over world money was highly problematic and did not last very long – at least by the standards established by the most successful among pre-modern world empires. But as long as it lasted, it enabled the British government to rule with great effectiveness over a much larger political-economic space than any previous world empire ever did or could.

US Hegemony and the Rise of the Free Enterprise System

The United Kingdom exercised world governmental functions until the end of the nineteenth century. From the 1870s onwards, however, it began to lose control of the European balance of power and soon afterwards of the global balance of power as well. In both cases, the rise of Germany to world power status was the decisive development (Kennedy 1987: 209–13).

At the same time, the capacity of the United Kingdom to hold the center of the capitalist world-economy was being undermined by the emergence of a new national economy of greater wealth, size, and resources than its own. This was the United States, which developed into a sort of "black hole" with a power of attraction for the labor, capital, and entrepreneurship of Europe with which the United Kingdom, let alone less wealthy and powerful states, had few chances of competing. The German and US challenges to British world power strengthened one another, compromised the ability of Britain to govern the interstate system, and eventually led to a new struggle for world supremacy of unprecedented violence and viciousness.

In the course of this struggle, conflict went through some, but not all, of the phases that had characterized the previous struggles for world supremacy. The initial phase, in which territorialist rulers attempted to incorporate the leading capitalist state, was ignored altogether. As a matter of fact, the fusion of the territorialist and capitalist logics of power had gone so far among the three main contenders (Britain, Germany, and the United States) for world supremacy that it is difficult to say which were the capitalist rulers and which the territorialist.

Throughout the confrontation, successive German rulers showed much stronger territorialist tendencies than the rulers of either of the other two contenders. But these stronger tendencies reflected their late arrival in the drive for territorial expansion. As we have seen, the United Kingdom had been all but parsimonious in its territorial acquisitions, and empire-building in the non-Western world had been integral to its world hegemony. As for the United States, its development into the main pole of attraction for the labor, capital, and entrepreneurial resources of the world-economy was closely tied to the continental scope attained by its domestic economy in the course of the nineteenth century. As Gareth Stedman Jones (1972: 216–17) has noted:

> American historians who speak complacently of the absence of the settler-type colonialism characteristic of European powers merely conceal the fact that the whole *internal* history of United States imperialism was one vast process of territorial seizure and occupation. The absence of territorialism "abroad" was founded on an unprecedented territorialism "at home."

This unprecedented domestic territorialism was wholly internal to a capitalist logic of power. British territorialism and capitalism had crossfertilized one another. But US capitalism and territorialism were indistinguishable from one another. This perfect harmony of territorialism and capitalism in the formation of the US state is best epitomized by their coexistence in Benjamin Franklin's thought.

Max Weber (1930: 48–55) has claimed that the capitalist spirit was present in Franklin's birthplace (Massachusetts) before a capitalistic order actually materialized, and supported this claim by quoting at length from a document in which Franklin upheld the virtues of relentless economizing with a view to earning more and more money as an end in itself. What Weber did not notice was that the capitalist spirit expressed in this document "in almost classical purity" was interwoven in Franklin's mind with an equally pronounced territorialist spirit. For in another document Franklin

> predicted that the population of the [North American] colonies would double every quarter century and admonished the British government to secure additional living space for these newcomers, on the grounds that a prince who "acquires new Territory, if he finds it vacant, or removes the Natives to give his own People Room" deserves the gratitude of posterity. (Lichteim 1974: 58)

The attempt of the British government following the defeat of the French in the Seven Years War to restrain the westward expansion of its Northern American colonies and to make them pay for the costs of empire together triggered the dissent that eventually led to the Revolution of 1776 (Wallerstein 1988: 202–3). But as soon as the Revolution had freed the settlers' hands, they set out to conquer as much of the North American continent as was profitable and to reorganize its space in a thoroughly capitalistic manner. Among other things this meant "removing the Natives" to make room for an ever-expanding immigrant population, just as Franklin had advocated. The result was a compact domestic territorial "empire" – a term that was used interchangeably with federal union in the vocabularies of Washington, Adams, Hamilton, and Jefferson (Van Alstyne 1960: 1–10) – characterized by substantially lower protection costs than Britain's far-flung overseas territorial empire.

Britain and America were the two models of "empire" that German rulers tried to reproduce with their late territorialism. Initially, they tried to follow Britain by seeking overseas colonies and by challenging British naval supremacy. But once the outcome of the First World War had demonstrated the futility of this goal, as well as the superiority of the American model, they tried to emulate the United States (Neumann 1942; Lichteim 1974: 67).

Neither Germany nor the United States ever tried to incorporate within their domain the leading capitalist state, as France and Spain had attempted in the fifteenth century and France and England in the seventeenth century. The world power of the leading capitalist state had grown so much in comparison to its forerunners and to its contemporary

challengers that the struggle could only start with what had previously been the second phase – that is, the phase in which the challengers try to supersede the comparative wealth and power advantage of the leading capitalist state. Even though control over world commerce and finance continued to play an important role in determining relative capabilities in the interstate system, in the course of the nineteenth century the decisive advantage in the struggle for world power had become the comparative size and growth potential of the domestic market. The larger and the more dynamic the domestic market of a state relative to all others, the better the chances of that state of ousting the United Kingdom from the center of the global networks of patron–client relations which constituted the world market (see chapter 4).

From this point of view, the United States was far better placed than Germany. Its continental dimension, its insularity, and its extremely favorable endowment of natural resources, as well as the policy consistently followed by its government of keeping the doors of the domestic market closed to foreign products but open to foreign capital, labor, and enterprise, had made it the main beneficiary of British free-trade imperialism. By the time the struggle for world supremacy began, the US domestic economy was well on its way to being the new center of the world-economy – a center connected to the rest of the world-economy not so much by trade flows as by more or less unilateral transfers of labor, capital, and entrepreneurship flowing from the rest of the world to its political jurisdiction.

Germany could not compete on this terrain. Its history and geographical position made it a tributary to rather than a beneficiary of these flows of labor, capital, and entrepreneurship, even though Prussia/Germany's long involvement in the front line of the European power struggle gave its rulers a comparative advantage *vis-à-vis* all other European states – the United Kingdom included – in the creation of a powerful military–industrial complex. From the 1840s onwards, military and industrial innovations began to interact more and more closely within the geographical area that was in the process of becoming Germany. It was precisely this interaction that sustained both the spectacular industrialization and the ascent to world power status expetienced by Germany in the second half of the nineteenth century (cf. McNeill 1984: chs 7–8; Kennedy 1987: 187, 210–11).

Nevertheless, the absolute and relative increase in its military–industrial capabilities did not fundamentally change Germany's tributary position in the circuits of wealth of the world-economy. On the contrary, tribute to the United Kingdom as the center of world commerce and finance was compounded by tribute to the United States in the form of outflows of labor, capital, and entrepreneurial resources. The growing

obsession of German rulers with *Lebensraum* (literally "life space," that is, territory believed vital for national existence) had its systemic origins in this condition of powerlessness in turning rapidly increasing military–industrial capabilities into a commensurate increase in their command over world economic resources.

As we have said, this obsession drove German rulers to try first to follow in the British, and then in the US path of territorial expansion. However, their attempts triggered a sudden escalation of interstate conflicts, which first undermined and then destroyed the foundations of British hegemony, but in the process inflicted even greater damage to the national wealth, power, and prestige of Germany itself. The state that benefited the most from the escalation of the interstate power struggle was the United States, primarily because it had inherited Britain's position of insularity at the main intersection(s) of world trade:

> What the English Channel lacked in insularity by the time of World War II, the Atlantic Ocean still provided. The USA was remarkably sheltered from hegemonic war in 1914–45. Furthermore, as the world economy developed and technological innovation continued to overcome the limitations of distance, the world economy grew to encompass all parts of the world. The remote position of America, then, became less of a disadvantage commercially. Indeed, as the Pacific began to emerge as a rival economic zone to the Atlantic, the USA's position became central – a continent-sized island with unlimited access to both of the world's major oceans. (Goldstein and Rapkin 1991: 946)

Just as in the late seventeenth and early eighteenth centuries the hegemonic role had become too large for a state of the size and resources of the United Provinces, so in the early twentieth century that role had become too large for a state of the size and resources of the United Kingdom. In both instances, the hegemonic role fell on a state – the United Kingdom in the eighteenth century, the United States in the twentieth century – that had come to enjoy a substantial "protection rent," that is, exclusive cost advantages associated with absolute or relative geostrategic insularity from the main seat(s) of interstate conflict on the one side, and with absolute or relative proximity to the main intersection(s) of world trade on the other (cf. Dehio 1962; Lane 1979: 12–13; Chase-Dunn 1989: 114, 118). But that state in both instances was also the bearer of sufficient weight in the capitalist world-economy to be able to shift the balance of power among the competing states in whatever direction it saw fit. And since the capitalist world-economy had expanded considerably in the nineteenth century, the territory and resources required to become hegemonic in the early twentieth century were much greater than in the

eighteenth (cf. Chase-Dunn 1989: 65–6; Goldstein and Rapkin 1991; Thompson 1992).

The greater territorial size and resources of the United States in the early twentieth century, in comparison with those of the United Kingdom in the eighteenth century, are not the only differences between the struggles for world supremacy of the two epochs. As we have already noted, the early twentieth-century struggle ignored the phase in which contending territorialist powers seek to incorporate within their domains the leading capitalist state, as France and England had tried unsuccessfully to do in the late seventeenth and early eighteenth centuries. In addition, and more importantly, the escalation of interstate conflict in the early twentieth century was followed almost immediately by increasing systemic chaos. In the previous struggle for world supremacy between France and England, it took more than a century of armed conflicts between the great powers before anarchy in interstate relations turned into systemic chaos under the force of a major wave of popular rebellions. But in the early twentieth century anarchy turned into systemic chaos almost as soon as the great powers faced one another in an open confrontation.

Even before the outbreak of the First World War powerful social protest movements had begun to mobilize throughout the world. These movements were rooted in, and aimed at subverting, the double exclusion, of non-Western peoples on the one hand, and the propertyless masses of the West on the other, on which free-trade imperialism was based.

Under British hegemony, non-Western peoples did not qualify as national communities in the eyes of the hegemonic power and of its allies, clients, and followers. Dutch hegemony, through the Westphalia System, had already divided the world "into a favored Europe and a residual zone of alternative behaviors" (Taylor 1991: 21–2). While Europe had been instituted as a zone of "amity" and "civilized" behavior even in times of war, the realm beyond Europe had been instituted as a zone to which no standard of civilization applied and where rivals could simply be wiped out (Herz 1959: 67; Coplin 1968: 22; Taylor 1991: 21–2). Britain's free-trade imperialism carried this division one step further. While the zone of amity and civilized behavior was extended to include the newly independent settler states of the Americas, and the right of Western nations to pursue wealth was elevated above the absolute rights of government of their rulers, non-Western peoples were deprived both in principle and in practice of the most elementary rights to self-determination through despotic colonial rule and the invention of appropriate ideologies, such as "Orientalism" (cf. Said 1978).

At the same time, the nations that had become the constituent units of

the interstate system under British hegemony were as a rule communities of property-holders from which the propertyless were effectively excluded. The right of propertied subjects to pursue wealth was thus elevated not just above the absolute rights of government of rulers, but also above the age-old rights to a livelihood of the propertyless masses (cf. Polanyi 1957). Like Athenian democracy in the ancient world, nineteenth-century liberal democracy was an "egalitarian oligarchy," in which "a ruling class of citizens shared the rights and spoils of political control" (McIver 1932: 352).

Non-Western peoples and the propertyless masses of the West had always resisted those aspects of free-trade imperialism that most directly impinged on their traditional rights to self-determination and a livelihood. By and large, however, their resistance had been ineffectual. This situation began to change at the end of the nineteenth century, as a direct result of the intensification of interstate competition and of the spread of national economy-making as an instrument of that competition.

The process of socialization of war-making and state-making, which in the previous wave of struggle for world supremacy had led to the "democratization of nationalism," was carried a step further by the "industrialization of war" – the process, that is, through which an ever-increasing number, range and variety of machinofactured mechanical products were deployed in war-making activities (cf. Giddens 1987: 223–4). As a result, the productive efforts of the propertyless in general, and of the industrial proletariat in particular, became a central component of the state-making and war-making efforts of rulers. The social power of the propertyless increased correspondingly, as did the effectiveness of their struggles for state protection of their livelihoods (cf. Carr 1945: 19).

Under these circumstances, the outbreak of war between the great powers was bound to have a contradictory impact on ruler–subject relations. On the one hand, it enhanced the social power of the propertyless directly or indirectly involved in the military–industrial efforts of rulers; on the other, it curtailed the means available to the latter to accommodate that power. This contradiction became evident in the course of the First World War, when a few years of open hostilities were sufficient to release the most serious wave of popular protest and rebellion hitherto experienced by the capitalist world-economy (Silver 1992; 1995).

The Russian Revolution of 1917 soon became the focal point of this wave of rebellion. By upholding the right of all peoples to self-determination ("anti-imperialism") and the primacy of rights to livelihood over rights of property and rights of government ("proletarian internationalism"), the leaders of the Russian Revolution raised the

specter of a far more radical involvement in the operation of the interstate system than anything previously experienced. Initially, the impact of the 1917 Revolution was similar to that of the American Revolution of 1776. That is to say, it fostered the revanchism of the great power that had just been defeated in the struggle for world supremacy (Germany, in this instance) and thereby led to a new round of open conflict between the great powers.

The interstate system came to be polarized into two opposite and antagonistic factions. The dominant faction, headed by the United Kingdom and France, was conservative, that is, oriented towards the preservation of free-trade imperialism. In opposition to this, upstarts in the struggle for world power, who had neither a respectable colonial empire nor the right connections in the networks of world commerce and finance, coalesced in a reactionary faction led by Nazi Germany. This faction presented itself as the champion of the annihilation of Soviet power, which directly or indirectly stood in the way of its expansionist ambitions – be it German *Lebensraum*, Japanese *tairiku*, or Italian *mare nostrum*. It none the less calculated that its counter-revolutionary objectives were best served by a preliminary or contemporaneous confrontation with the conservative faction.

This confrontation culminated in the complete disintegration of the world market and in unprecedented violations of the principles, norms, and rules of the Westphalia System. What is more, like the Napoleonic Wars 150 years earlier, the Second World War acted as a powerful transmission belt for social revolution which, during and after the war, spread to the entire non-Western world in the form of national liberation movements. Under the joint impact of war and revolution the last remnants of the nineteenth-century world order were swept away and world society appeared once again to be in a state of irremediable disorganization. By 1945, Franz Schurmann (1974: 44) notes, many US government officials "had come to believe that a new world order was the only guarantee against chaos followed by revolution."

Like the United Kingdom in the early nineteenth century, the United States first became hegemonic by leading the interstate system towards the restoration of the principles, norms, and rules of the Westphalia System, and then went on to govern and remake the system it had restored. Once again, this capability to remake the interstate system was based on a widespread perception among the rulers and subjects of the system that the national interests of the hegemonic power embodied a general interest. This perception was fostered by the capacity of US rulers to pose and provide a solution to the problems around which the power struggle among revolutionary, reactionary, and conservative forces had raged since 1917. (See Mayer 1971: ch. 2 on the distinction between these three

kinds of forces in the period under discussion.)

Right from the start, the most enlightened factions of the US ruling elite showed a much greater awareness than the ruling elites of the conservative and reactionary great powers of what these issues were:

> In many ways the most significant feature both of Wilson's programme and of Lenin's is that they were not European-centred but world-embracing: that is to say, both set out to appeal to all peoples of the world. . . . Both implied a negation of the preceding European system, whether it was confined to Europe or whether it spread . . . over the whole world. . . . Lenin's summons to world revolution called forth, as a deliberate counter-stroke, Wilson's Fourteen Points, the solidarity of the proletariat and the revolt against imperialism were matched by self-determination and the century of the common man. (Barraclough 1967: 121; see also Mayer 1959: 33–4, 290)

This reformist response to the challenges posed by the Soviet Revolution was well ahead of its times. But once the struggle between the conservative and the reactionary forces of world politics had run its course, resulting in a massive increase in the world power of both the United States and the USSR, the stage was set for the remaking of the interstate system to accommodate the demands of non-Western peoples and of the propertyless.

After the Second World War, every people, whether "Western" or "non-Western," was granted the right to self-determination, that is to say, to constitute itself into a national community and, once so constituted, to be accepted as a full member of the interstate system. In this respect, global "decolonization" and the formation of the United Nations, whose General Assembly brought together all nations on an equal footing, have been the most significant correlates of US hegemony.

At the same time, the provision of a livelihood to all subjects became the key objective for the members of the interstate system to pursue. Just as the liberal ideology of British hegemony had elevated the pursuit of wealth by propertied subjects above the absolute rights of government of rulers, so the ideology of US hegemony has elevated the welfare of all the subjects ("high mass consumption") above the absolute rights of property and the absolute rights of government. If British hegemony had expanded the interstate system in order to accommodate the "democratization" of nationalism, US hegemony carried the expansion further by selectively accommodating the "proletarianization" of nationalism.

Once again, expansion had involved supersession. The supersession of the Westphalia System by free-trade imperialism was real but partial. The principles, norms, and rules of behavior restored by the Congress of Vienna left considerable leeway to the members of the interstate system

on how to organize their domestic and international relations. Free trade impinged on the sovereignty of rulers, but the latter's ability to "delink" from the trade and power networks of the hegemonic state if they so chose remained considerable. Above all, war and territorial expansion remained legitimate means to which the members of the interstate system could resort in the pursuit of their ends.

Moreover, under British hegemony there were no organizations with capabilities autonomous from state power to rule over the interstate system. International law and the balance of power continued to operate, as they had done since 1650, between rather than above states. As we have seen, the Concert of Europe, *haute finance*, and the world market all operated over the heads of most states. Nevertheless, they had little organizational autonomy from the world power of the United Kingdom. They were instruments of governance of a particular state over the interstate system, rather than autonomous organizations overruling the interstate system.

In comparison with free-trade imperialism, the institutions of US hegemony have considerably restricted the rights and powers of sovereign states to organize relations with other states and with their own subjects as they see fit. National governments have been far less free than ever before to pursue their ends by means of war, territorial expansion, and to a lesser but none the less significant extent, violations of their subjects' civil and human rights. In Franklin Roosevelt's original vision of the postwar world order these restrictions amounted to nothing less than a complete supersession of the very notion of state sovereignty.

The crucial feature of Roosevelt's vision

> was that security for the world had to be based on American power exercised through international systems. But for such a scheme to have a broad ideological appeal to the suffering peoples of the world, it had to emanate from an institution less esoteric than an international monetary system and less crude than a set of military alliances or bases. (Schurmann 1974: 68)

This institution was to be the United Nations with its appeal to the universal desire for peace on the one side, and to the desire of poor nations for independence, progress, and eventual equality with the rich nations on the other. The political implications of this vision were truly revolutionary:

> For the first time in world history, there was a concrete institutionalization of the idea of world government. Whereas the League of Nations was guided by an essentially nineteenth-century spirit of a congress of nations, the United Nations was openly guided by American political ideas. . . . There was nothing revolutionary about the kind of world system Britain created through its empire. There was something revolutionary about the world market system that flowed out of Britain in the eighteenth century and created international capitalism. . . . Britain's true imperial greatness was economic, not political. The United Nations, however, was and remains a political idea. The American Revolution had proven that nations could be constructed through the conscious and deliberate actions of men. Until then it was assumed that they only grew naturally over long periods of time. . . . Since the American Revolution, many new nations have been created. . . . What Roosevelt had the audacity to conceive and implement was the extension of this process of government-building to the world as a whole. The power of that vision must not be underestimated, even as one looks at the shoddy reality that began to emerge even before the San Francisco Conference. (Schurmann 1974: 71)

Reality became even shoddier after the formation of the United Nations when Roosevelt's vision was reduced by the Truman Doctrine to the more realistic political project that came to be embodied in the Cold War world order. Roosevelt's "one worldism" – which included the USSR among the poor nations of the world to be incorporated into the evolving Pax Americana for the benefit and security of all – became "free worldism," which turned the containment of Soviet power into the main organizing principle of US hegemony. Roosevelt's revolutionary idealism, which saw in the institutionalization of the idea of world government the primary instrument through which the US New Deal would be extended to the world as a whole, was displaced by the reformist realism of his successors, who institutionalized US control over world money and over global military power as the primary instruments of US hegemony (cf. Schurmann 1974: 5, 67, 77).

As these more traditional instruments of power came to be deployed in the protection and reorganization of the "free world," the Bretton Woods organizations (the IMF and the World Bank) and the United Nations either became supplementary instruments wielded by the US government in the exercise of its world hegemonic functions or, if they could not be used in this way, were impeded in the exercise of their own institutional functions. Thus, throughout the 1950s and 1960s the International Monetary Fund (IMF) and the World Bank played little or no role in the regulation of world money in comparison with, and in relation to, a select ensemble of national central banks, led by the US Federal Reserve System. It was only with the crisis of US hegemony in the 1970s and, above all, in the 1980s that for the first time the Bretton Woods organizations rose to prominence in global monetary regulation. Similarly, in the early 1950s the UN Security Council and General Assembly were used instrumentally by the US government to legitimate its intervention in the Korean civil war, and subsequently lost all centrality in the regulation of interstate

conflicts until their revitalization in the late 1980s and early 1990s.

We shall return to the significance of this recent resurgence of the Bretton Woods and UN organizations. But for now let us emphasize that the instrumental use and partial atrophy of these organizations at the moment of maximum expansion of US world hegemony did not involve a return to the strategies and structures of British world hegemony. Quite apart from the fact that simply by remaining in place the Bretton Woods and UN organizations retained much of their ideological value in the legitimation of US hegemony – in sharp contrast to the absence of transstatal and inter-statal organizations of comparable visibility, permanence, and legitimacy in the establishment and reproduction of British hegemony – US "free worldism" was as much a negation as it was a continuation of British free-trade imperialism. A continuation because, like the latter, it re-established and expanded the Westphalia System after a period of increasing chaos in both inter- and intra-state relations. But a negation because it was neither "imperialist" nor "free tradist," at least not in the sense in which British free-trade imperialism was.

The reductive operationalization of Roosevelt's vision through the establishment of the Cold War world order, far from lessening, strengthened the "anti-imperialist" and "anti-free-tradist" thrust of US hegemony. This reductive operationalization simply institutionalized the ideological competition between the United States and the USSR which first took shape when Lenin's summons to world revolution called forth Wilson's proclamation of the rights of all peoples to self-determination and of the "common man" to a decent livelihood. And while the institutionalization of this competition narrowed considerably the parameters within which US hegemony legitimated the demands for advancement of non-Western peoples and of the propertyless classes of the world, it also speeded up the process of reorganization of the capitalist world-economy to satisfy those demands to the best of the US government's capabilities.

Thus, there can be little doubt that the process of decolonization of the non-Western world would have been far more problematic than it actually was, or would have taken much longer to run its course than it actually did, were it not for the intense ideological and political competition that pitted the United States and the USSR against one another in the late 1940s and early 1950s. To be sure, this same intense competition led the US government to trample on the right of the Korean and, later, of the Vietnamese to settle, without outside interference, the quarrel that had driven the governments of their northern and southern territories to wage war on one another. But this trampling on the customary rights of sovereign states was nothing other than an aspect of the expansion of the Westphalia System under US

hegemony through the introduction of unprecedented restrictions on the freedom of sovereign states to organize relations with other states and with their own subjects as they pleased.

Thus, at the height of its world hegemony the British government did not come to the assistance of the free-tradist Confederacy against the fiercely protectionist Union in the American Civil War. Rather, it left its former colonists free to massacre one another in the bloodiest war fought under British hegemony, and concentrated instead on consolidating its control over the Indian Empire and on laying the foundations of the greatest wave of colonization the world had ever seen. At the height of its hegemony, in contrast, the US government substituted itself for the "free worldist" regimes of South Korea and South Vietnam in their respective wars against the communist regimes of North Korea and North Vietnam. At the same time, however, it actively encouraged the greatest wave of decolonization the world had ever seen. (On waves of colonization and decolonization, see Bergesen and Schoenberg 1980: 234–5.) These contrasting tendencies at the height of the British and US governments' respective world hegemonies provide a vivid illustration of the divergent thrusts of the two hegemonies. If we designate the main thrust of British hegemony as "imperialist," then we have no choice but to designate the main thrust of US hegemony as "anti-imperialist" (cf. Arrighi 1983).

This opposite thrust of US hegemony relative to British hegemony reproduced the pattern of "regression" already in evidence in the development of British hegemony. Just as the expansion and supersession of the Westphalia System under British hegemony were based on strategies and structures of world-scale rule and accumulation which were more like those of Imperial Spain in the sixteenth century than those of Dutch hegemony, so the expansion and supersession of that same system under US hegemony has involved a "regression" towards strategies and structures of world-scale rule and accumulation which resemble more closely those of Dutch than those of British hegemony. "Anti-imperialism," so defined, is one such similarity. Although the United States was formed through an unprecedented "domestic" territorialism, neither Dutch nor US hegemony was based on the kind of territorial "world empire" on which British hegemony was based. And conversely, Dutch and US hegemony were both based on leadership of movements of national self-determination – a strictly European movement in the case of the Dutch, a universal movement in the case of the United States – in a way in which British hegemony never was. Britain did lead the states that emerged out of the American wave of national self-determination towards a free trade world order. But that order was based on the full realization of Britain's "imperialist" dispositions in Asia and in Africa. By abandoning Britain's imperial developmental path in favor of a strictly domestic territorialism,

the United States reproduced on an incomparably larger scale the national developmental path of Dutch hegemony.

Similar considerations apply to the "anti-free-tradist" thrust of US hegemony. The departure of US hegemony from the principles and practices of nineteenth-century liberalism in favor of greater governmental responsibility for economic regulation and for the welfare of subjects has been widely noted (see, for example, Ruggie 1982; Lipson 1982; Keohane 1984b; Ikenberry 1989; Mjoset 1990). Nevertheless, emphasis on the "liberalism" of the two hegemonic orders in comparison with the "mercantilism" of the intervening period of hegemonic struggle has tended to obscure the fundamental departure of the US Cold War world order from the free-trade policies and ideology of nineteenth-century Britain. The truth of the matter is that the US government never even considered adopting the kind of *unilateral* free trade that Britain practiced from the 1840s right up to 1931. The free trade ideologized and practiced by the US government throughout the period of its hegemonic ascendancy has been, rather, a strategy of bilateral and multilateral intergovernmental negotiation of trade liberalization, aimed primarily at opening up other states to US commodities and enterprise. Nineteenth-century beliefs in the "self-regulating market" – in Polanyi's (1957) sense – became the official ideology of the US government only in the 1980s under the Reagan and Bush administrations in response to the hegemonic crisis of the 1970s. Even then, however, the unilateral measures of trade liberalization actually undertaken by the US government were very limited.

In any event, free trade played no role in the formation of the Cold War world order. Far from being the policy that brought the US and Western Europe together,

> [free trade] was the issue that divided them. . . . [T]he post-war Atlantic Community came into being only after the United States, prompted by its fear of Russian and domestic European communism, suppressed its liberal scruples in the interest of "mutual security" and Europe's rapid recovery. . . . Economics was subordinated to politics. Trade took directions from the flag. And America's hegemony over Europe took a more visible form than free-trade imperialism, and also a form more useful and acceptable to the Europeans. (Calleo and Rowland 1973: 43)

This more useful and acceptable form of hegemony departed from the nineteenth-century British form in several respects. For one thing, world money came to be regulated by the US Federal Reserve System acting in concert with select central banks of other states, in sharp contrast to the nineteenth-century system of private regulation based on and controlled

by the London-centered cosmopolitan networks of *haute finance*. The publicly regulated dollar system endowed the US government with much greater freedom of action than the British government ever enjoyed under the nineteenth-century privately regulated gold standard (Mjoset 1990: 39). Eventually, market constraints drastically reduced this freedom of action. But as long as the US government wielded effective control over world liquidity – as it did throughout the 1950s and most of the 1960s – it could use this control to promote and sustain a generalized expansion of world trade with few precedents in capitalist history (see chapter 4).

Similarly, the chief instrument of world market formation under US hegemony, the General Agreement on Trade and Tariffs (GATT), left in the hands of governments in general, and of the US government in particular, control over the pace and direction of trade liberalization. By unilaterally liberalizing its foreign trade in the nineteenth century, Britain had *ipso facto* forgone the possibility of using the prospect of such a liberalization as a weapon in forcing other governments to liberalize their own trade. By never renouncing the use of this weapon through unilateral free trade, the United States instituted a trade regime that was far less "generous" towards the rest of the world than the British regime. But as Krasner (1979) has pointed out, as long as the United States operated at a higher level in the hierarchy of needs than its allies – as it did throughout the 1950s and 1960s – it could afford to give priority to Cold War objectives and be generous in the negotiation of successive rounds of trade liberalization. A far more extensive degree of *multilateral* free trade was thereby attained under US hegemony compared with British hegemony. Nevertheless, what eventually emerged was not a free trade regime; rather, it was a "patchwork arrangement for world trade that is neither openness nor autarky" (Lipson 1982: 446); or, worse still, a "ramshackle political structure of *ad hoc* diplomatic relations between Japan, EEC and US, and bilateral agreements between these and other minor countries" (Strange 1979: 323).

A third and far more fundamental departure of US from British hegemony has been the tendency for a significant and growing proportion of world trade to be "internalized" within, and administered by, large-scale, vertically integrated, transnational corporations. Data on international "trade," which consists in reality of intra-firm transactions, are not readily available. But various estimates indicate that the proportion of world trade consisting of intra-firm transactions has risen from something in the order of 20–30 per cent in the 1960s to something in the order of 40–50 per cent in the late 1980s and early 1990s. According to Robert Reich, "in 1990 more than half of America's exports and imports, by value, were simply the transfers of such goods and related services *within* global corporations" (Reich 1992: 114; emphasis in the original).

This feature of US hegemony reflects the centrality of direct investment rather than trade in the reconstruction of the capitalist world-economy since the Second World War. As Robert Gilpin (1975: 11) has observed, the essence of direct investment by US transnational corporations "has been the shift of managerial control over substantial sectors of foreign economies to American nationals. In character, therefore, these direct investors in other countries are more similar to the trading companies of the mercantilistic era than to the free traders and finance capitalists that dominated Britain in the nineteenth century." Since the trading companies to which Gilpin refers were the chief instrument in the seventeenth century through which Dutch governmental and business agencies transformed their regional commercial supremacy based primarily on control over Baltic trade into a world commercial supremacy, the transnational expansion of US corporate capital in the twentieth century constitutes another aspect of the "regression" of US hegemony towards strategies and structures typical of Dutch hegemony (see chapters 2 and 4).

There is none the less a fundamental difference between the joint-stock chartered companies of the seventeenth and eighteenth centuries on the one side, and the transnational corporations of the twentieth century on the other. Joint-stock chartered companies were part-governmental, part-business organizations, which specialized *territorially*, to the exclusion of other similar organizations. Twentieth-century transnational corporations, in contrast, are strictly business organizations, which specialize *functionally* in specific lines of production and distribution, across multiple territories and jurisdictions, in cooperation and competition with other similar organizations.

Owing to their territorial specialization and exclusiveness, successful joint-stock chartered companies of all nationalities were very few in number. At no time were there more than a dozen or so, and even fewer were truly successful as governmental or as business enterprises. Nevertheless, individually and collectively, these companies played a key role in consolidating and expanding the territorial scope and exclusiveness of the European system of sovereign states.

Owing to their trans-territoriality and functional specialization, the number of transnational corporations that have prospered under US hegemony has been incomparably larger. An estimate for 1980 put the number of transnational corporations at over 10,000 and the number of their foreign affiliates at 90,000 (Stopford and Dunning 1983: 3). By the early 1990s, according to another estimate, these numbers had risen to 35,000 and 170,000, respectively (*The Economist*, 27 March 1993: 5, as cited in Ikeda 1993).

Far from consolidating the territorial exclusiveness of states as "containers of power," this explosive growth of transnational corporations has become the single most important factor in undermining the substance of that exclusiveness. By about 1970, when the crisis of US hegemony as embodied in the Cold War world order began, transnational corporations had developed into a world-scale system of production, exchange and accumulation, which was subject to no state authority and had the power to subject to its own "laws" each and every member of the interstate system, the United States included (see chapter 4). The emergence of this free enterprise system – free, that is, from the constraints imposed on world-scale processes of capital accumulation by the territorial exclusiveness of states – has been the most distinctive outcome of US hegemony. It marks a decisive new turning point in the process of expansion and supersession of the Westphalia System, and may well have initiated the withering away of the modern interstate system as the primary locus of world power.

Robert Reich (1992: 3) speaks of the declining significance of national economies and societies under the impact of "the centrifugal forces of the global economy which tear the ties binding citizens together." Peter Drucker (1993: 141–56) sees a steady deterioration in the power of nation-states under the combined impact of three forces: the "transnationalism" of multilateral treaties and suprastatal organizations; the "regionalism" of economic blocks like the European Union and the North American Free Trade Agreement (NAFTA); and the "tribalism" of increasing emphasis on diversity and identity. Whatever the diagnosis, a general perception has developed that the usefulness and power of nation-states are waning:

> The key autonomous actor in political and international affairs for the past few centuries appears not just to be losing its control and integrity, but to be the *wrong sort* of unit to handle the newer circumstances. For some problems, it is too large to operate effectively; for others, it is too small. In consequence there are pressures for the "relocation of authority" both upward and downward, creating structures that might respond better to today's and tomorrow's forces of change. (Kennedy 1993: 131; emphasis in the original)

Towards a New Research Agenda

Terence Hopkins (1990: 411) has suggested that Dutch, British, and US hegemony should be interpreted as successive "moments" in the formation of the capitalist world system: "Dutch hegemony made possible a capitalist world-economy as an historical social system; British hegemony clarified its underpinnings and moved it to dominion globally; US hegemony furthered its reach, framework, and penetration

and at the same time freed the processes that are bringing about its demise." A similar scheme is proposed in this chapter, whereby the interstate system instituted under Dutch hegemony expanded through two successive reductions in the sovereignty and autonomous capabilities of its constituent units.

British hegemony expanded the system through the inclusion of the settler states which emerged from the decolonization of the Americas and through the elevation of the property rights of subjects above the sovereignty rights of rulers. The system so instituted was still a system of mutually legitimating, exclusive territorial sovereignties, like the original Westphalia System. But it was a system subject to British governance – a governance which Britain was able to exercise by virtue of its control over the European balance of power, over an extensive and dense world market centered on Britain itself, and over a global British empire. Although this governance was widely perceived as being exercised in the general interest of the member states of the system, it involved a lesser exclusiveness of sovereignty rights than was actually enjoyed in the original Westphalia System.

This evolutionary process of simultaneous expansion and supersession of the modern interstate system was taken one step further by its enlarged reconstitution under US hegemony. As the system came to include the non-Western states that emerged from the decolonization of Asia and Africa, not just the property rights, but also the rights of subjects to a livelihood were elevated *in principle* over the sovereignty rights of rulers. Moreover, constraints and restrictions on state sovereignty came to be embodied in suprastatal organizations – most notably, the UN and the Bretton Woods organizations – which for the first time in the modern era institutionalized the idea of world government (and for the first time in world history, the idea of a world government encompassing the entire globe). With the establishment of the Cold War world order, the United States abandoned Roosevelt's "one worldism" in favor of Truman's "free worldism" and substituted itself for the UN in the governance of the world system. But the scale, scope, and effectiveness of US governance of the world, as well as the concentration of military, financial, and intellectual means deployed for the purpose, far exceeded the ends and means of nineteenth-century British hegemony.

The modern interstate system has thus acquired its present global dimension through successive hegemonies of increasing comprehensiveness, which have correspondingly reduced the exclusiveness of the sovereignty rights actually enjoyed by its members. Were this process to continue, nothing short of a true world government, as envisaged by Roosevelt, would satisfy the condition that the next world hegemony be more comprehensive territorially and functionally than the

preceding one. We are thus back, by a different and more roundabout route, to one of the questions raised in the Introduction. Has the West attained such a degree of world power under US leadership that it is on the verge of putting an end to capitalist history as embedded in the rise and expansion of the modern interstate system?

There are certainly signs that this is within the realm of historical possibilities as an outcome of the hegemonic crisis of the 1970s and 1980s. Thus, the revitalization in the 1980s and early 1990s of the Bretton Woods and UN organizations shows that the ruling groups of the United States are well aware of the fact that even so powerful a state as the United States lacks the material and ideological resources needed to exercise minimal governmental functions in an increasingly chaotic world. Whether these same groups are willing to renounce the trappings – let alone the substance – of national sovereignty that would be needed for effective action through suprastatal organizations, or whether they are at all capable of devising and articulating a social purpose for such action that would make it legitimate world-wide and thereby increase its chances of success – these are altogether different questions, which for the time being deserve an emphatically negative answer. And yet, there is no reason to suppose that in the present just as in past hegemonic transitions, what at one point appears unlikely or even unthinkable, should not become likely and eminently reasonable at a later point, under the impact of escalating systemic chaos.

The obverse side of this process of world government formation is the crisis of territorial states as effective instruments of rule. Robert Jackson has coined the expression "quasi-states" to refer to states that have been granted juridical statehood and have thereby become members of the interstate system, but that lack the capabilities needed to carry out the governmental functions associated historically with statehood. In his view, the clearest instances of such a condition are provided by the Third World states that have emerged from the post-Second World War wave of decolonization:

> The ex-colonial states have been internationally enfranchised and possess the same external rights and responsibilities as all other sovereign states: juridical statehood. At the same time, however, many . . . disclose limited empirical statehood: their populations do not enjoy many of the advantages traditionally associated with independent statehood. . . . The concrete benefits which have historically justified the undeniable burdens of sovereign statehood are often limited to fairly narrow elites and not yet extended to the citizenry at large. . . . These states are primarily juridical. They are still far from complete, so to speak, and empirical statehood in large measure still remains to be built. I therefore refer to them as "quasi-states." (Jackson 1990: 21)

If the condition of quasi-statehood designates a more or less fundamental lack of actual state-making capabilities relative to theoretically or historically informed expectations, then it has been a far more general condition of the modern interstate system than Jackson supposes. As John Boli (1993: 10–11) has pointed out, the internal and external aspects of national sovereignty are essentially theories about the legitimacy of authority. National polities organized into states are theorized as the pinnacle of legitimate authority, "neither subordinate to the world polity nor defied by local polities or organizations." The theory, however, "is often violated by the facts."

Having examined the facts, Charles Tilly (1975: 39) noted how the history of European state-making itself presents many more instances of failure than of success: "The disproportionate distribution of success and failure puts us in the unpleasant situation of dealing with an experience in which most of the cases are negative, while only the positive cases are well-documented." Even more damning, Ruggie (1993: 156) adds, paraphrasing Hendrik Spruyt, is the fact that "because successor forms to the medieval system of rule other than territorial states have been systematically excluded from consideration, there is no fundamental variation in units on the dependent-variable side in theories of state-building."

Jackson's notion of quasi-states thus rests on a theory of sovereignty based on a handful of "successful" historical experiences of state-making in which "success" itself has come to be assessed exclusively in terms of the capability of creating a viable territorial nation-state rather than in terms of the actual capability of exercising authority in the world system at large. This double bias is well illustrated by the disproportionate role played by France in setting the standards of sovereignty by which the "fullness" of other state-making experiences have been assessed. In the seventeenth and eighteenth centuries France was undoubtedly the most "successful" territorialist organization in Europe as far as nation-state-making was concerned. As such it became a model for other territorialist organizations to imitate and for political historians to study. By the real or imagined standards set by France in nation-state-making, the United Provinces throughout its short life of merely two centuries may be said to have been a quasi-state. Indeed, it never became a nation-state proper. And yet, as far as the making of the modern interstate *system* is concerned – as opposed to the making of one of the system's most powerful constituent units – the role played by the transient Dutch state has been incomparably greater than that of the "model" French nation-state. As we shall see, analogous considerations apply to the grossly overvalued city-state-making experience of Venice relative to the world system-making experience of the quasi-city-state, Genoa.

The issue is not one of mere historiographical interest. As noted in the Introduction, in comparison with the real or imagined standards set by the United States over the last century in state-making, let alone in war-making, the states of the rising East and Southeast Asian capitalist archipelago are to varying degrees all quasi-states. Among the "islands" of the archipelago only the largest, Japan, is a nation-state in the full sense of the term, and a highly successful one at that. But even Japan is still a US military protectorate in the world system at large. The two "islands" of intermediate size, South Korea and Taiwan, are also US military protectorates. In addition, neither of them is a nation-state in the full sense – South Korea living in constant hope or fear of being reunited with its northern half, and Taiwan in constant hope or fear of becoming the master or servant of mainland China. Finally, the two smallest but by no means least important "islands," Singapore and Hong Kong, are city-states combining ultramodern technologies and architectures with a political capitalism reminiscent of the Renaissance city-states – the commercial-industrial entrepôt functions exercised by Singapore making it resemble Venice, and the commercial-financial entrepôt functions exercised by Hong Kong making it resemble Genoa.

A different but equally striking combination of ultramodern and early modern traits is present in the quasi-states on which Robert Jackson has focused his attention:

> In Third World regions such as Africa and South Asia, a student of Western history cannot help noticing apparent disjunctions between the existence of Western-looking twentieth-century armies, on the one hand, and the prevalence of military politics reminiscent of the Renaissance, between the apparatus of representative government and the arbitrary use of state power against citizens, between the installation of apparently conventional bureaucracies and the widespread use of governmental organization for individual gain. These disjunctions are more visible in states that have recently escaped from colonial rule than in the rest of the Third World. (Tilly 1990: 204)

The resurgence of early modern forms of military politics in an ultra- or post-modern world is not confined to Third World regions that have recently shaken off colonial rule. Well before the Second World of Communist regimes disintegrated into a host of ethno-nations actually or potentially at war with one another, a RAND report stressed the tendency for warfare to revert to early modern patterns:

> With continuous, sporadic armed conflict, blurred in time and space, waged on several levels by a large array of national and subnational forces, warfare in the last quarter of the twentieth century may well come to resemble warfare in the Italian Renaissance or warfare in the early seventeenth century, before

> the emergence of national armies and more organized modern warfare. (Jenkins 1983: 17)

This resurgence of early modern patterns of state- and war-making at the end of a 300-year process of expansion of the modern interstate system has been accompanied by a wave of challenges to statal authority with few precedents in modern history. In noting this tendency, James Rosenau (1990: 4–5) wondered "whether such developments, coming so fast upon each other, are not the first surfacings of historical departures in which the dynamics of constancy and change are brought into new forms of tension which, in turn, are altering the fundamental structures of world politics." He then suggests that global life may have entered a period of "turbulence" the likes of which it has not experienced since major shifts in all dimensions of world politics culminated in the Treaty of Westphalia in 1648.

Rosenau's "turbulence" broadly corresponds to the systemic chaos which in our interpretative scheme constitutes a recurrent condition of the modern interstate system. A condition of systemic chaos/turbulence was highly visible at the inception of the system. But it recurred twice, both as a symptom of the breakdown of the system as instituted under one hegemony and as a key ingredient in the reconstitution of the system under a new hegemony.

The increasing systemic chaos/turbulence of the 1970s and 1980s fits this pattern of recurrence well. It can be taken to signal the breakdown of the system as instituted under US hegemony, and it can be projected as a key component of a possible but by no means certain future reconstitution of the system on new foundations. Nevertheless, the resurgence of early modern forms of state- and war-making in the midst of challenges to statal authority of unprecedented scale and scope suggests that there may indeed be something special about the present systemic chaos/turbulence in comparison with earlier manifestations of the phenomenon. It is as if the modern system of rule, having expanded spatially and functionally as far as it could, has nowhere to go but "forward" towards an entirely new system of rule or "backward" towards early modern or even pre-modern forms of state- and war-making.

The system seems to be moving "forward" and "backward" at the same time. This double movement has always been a major feature of the modern world system. In our scheme of things, "old regimes" do not just "persist," as in Arno Mayer's (1981) account of what we have taken to be the era of British hegemony. Rather, they are repeatedly resurrected as soon as the hegemony that has superseded them is in its turn superseded by a new hegemony. Thus, British hegemony reconstituted the modern system of rule on enlarged spatial and social foundations by reviving

in new and more complex forms aspects of imperial rule that had been superseded under Dutch hegemony. And so in its turn US hegemony reconstituted the system on enlarged spatial and social foundations by reviving in new and more complex forms aspects of corporate capitalism that had been superseded under British hegemony.

This double movement forward and backward at the same time seems also to characterize the present conjuncture. The difference with previous periods of hegemonic transitions is that the scale and complexity of the modern world system have already become so large as to leave little room for further increases. The double movement and accompanying turbulence may therefore be producing not a new reconstitution of the modern system of rule on enlarged foundations, but its metamorphosis into an altogether different system which revitalizes one aspect or another of early modern or pre-modern modes of rule.

In a similar vein, John Ruggie (1993) has maintained that the chief and most distinctive feature of the modern system of rule has been the differentiation of its subject collectivity into separate, fixed, and mutually exclusive territorial spaces of legitimate dominion. Although the substantive forms and individual trajectories of the states instituted by this differentiation have varied over time, their "species" has been clearly discernible from the seventeenth century to the present day. Today, however, this form of territoriality as the basis for organizing political life seems to be torn apart by a non-territorial, functional space, which has grown within the modern system of rule, but constitutes an institutional negation of that system's exclusive territoriality.

Among the main aspects of this implosion, Ruggie mentions Fredric Jameson's (1984) notion of a "postmodern hyperspace" resulting from the "internalization" of international relations within global capitalism's own institutional forms. Ruggie is unsure about what precisely Jameson means by the term "hyperspace." He none the less finds it useful to designate the tendency whereby "transnationalized microeconomic links . . . have created a non-territorial 'region' in the world economy – a decentered yet integrated space-of-flows, operating in real time, which exists alongside the spaces-of-places that we call national economies."

> These conventional spaces-of-places continue to engage in external economic relations with one another, which we continue to call trade, foreign investment, and the like, and which are more or less effectively mediated by the state. In the nonterritorial global economic region, however, the conventional distinctions between internal and external are exceedingly problematic, and any given state is but one constraint in corporate global strategic calculations. (Ruggie 1993: 172)

This corresponds to our earlier contention that the explosive growth in the number of transnational corporations and the transactions within and between them has become the most critical factor in the withering away of the modern system of territorial states as the primary locus of world power. As Ruggie underscores, however, the novelty of the emerging "postmodern hyperspace" can easily be exaggerated, owing to the deficiencies of our perceptual habits. These habits have formed in the conventional spaces-of-places and are wholly inadequate to describe, let alone explain, the development of the singular space-of-flows engendered by the "internalization" of international relations within the organizational structures of world capitalism. Given this inadequacy, non-territorial spaces-of-flows may have existed unnoticed alongside the national spaces-of-places throughout the history of the modern world system.

Ruggie (1993: 154–5, 173) specifically mentions the resemblance that today's relationship between the transnational economy and national jurisdictions bears to the relationship between medieval juridical authorities and the trade fairs. Local lords could have withdrawn the right to hold a fair located in their domain at any time. But they had no interest in doing so because the fairs were a source of revenue and financial services (money-changing in particular) which other lords would have been only too glad to welcome to their own domains. So the fairs prospered, and although they were no substitute for the institutions of feudal rule, they eventually sapped their vitality.

> They did so because the new wealth they produced, the new instruments of economic transactions they generated, the new ethos of commerce they spread, the new regulatory arrangements they required, the expansion of cognitive horizons they required, and the expansion of cognitive horizons they effected all helped undermine the personalistic ties and the modes of reasoning on which feudal authority rested.

Similarly, today's transnational corporations are no substitute for the governmental institutions of the modern system of rule, as Kenneth Waltz (1979) has insisted. And yet, they may be contributing to their demise through the novel behaviors they generate and the novel space-time constructs they embody. This much was implied by Richard Barnet and Ronald Müller's (1974: 15–16) contention that "[t]he managers of the global corporations are seeking to put into practice a theory of human organization that will profoundly alter the nation-state system around which society has been organized for over 400 years. What they are demanding in essence is the right to transcend the nation-state, and in the process, to transform it." In support of this contention, they quote

Carl A. Gerstacher, chairman of the Dow Chemical company, which was to become a *locus classicus* of the literature on transnational corporations:

> I have long dreamed to buy an island owned by no nation . . . and of establishing the World Headquarters of the Dow Company on the truly neutral ground of such an island, beholden to no nation or society. If we were located on such truly neutral ground we could then really operate in the United States as U.S. citizens, in Japan as Japanese citizens, and in Brazil as Brazilians rather than being governed in prime by the laws of the United States. . . . We could even pay any natives handsomely to move elsewhere. (quoted in Barnet and Müller 1974: 16)

Interestingly enough, this dream of absolute non-territoriality evokes the system of "fairs without place" realized by the Genoese diaspora capitalist class four hundred years earlier. Unlike the medieval fairs, these fairs were tightly controlled by a clique of merchant bankers who held them wherever they liked until they settled on the truly neutral ground of Piacenza. "The Genoese have invented a new exchange," commented the Florentine Bernardo Davanzati sarcastically in 1581, "which they call fairs of Bisenzone [the Italian name for Besançon], where they were held initially. But now they are held in Savoy, in Piedmont, in Lombardy, at Trento, just outside Genoa, and wherever the Genoese choose. Hence, they should be called more appropriately *Utopie*, that is, fairs without place" (quoted in Boyer-Xambeau, Deleplace, and Gillard 1991: 123).

The truth of the matter is that the Genoese fairs were a utopia only if perceived from the vantage point of the space-of-places of the declining city-states and of the rising nation-states. From the vantage point of the space-of-flows of diaspora capitalist classes, in contrast, they were a powerful instrument of control of the entire European system of interstatal payments. Flows of commodities and means of payment that were "external" to the declining and rising states were, in fact, "internal" to the non-territorial network of long-distance trade and high finance controlled and managed by the Genoese merchant elite through the system of the Bisenzone fairs (see chapter 2).

As in the kin-based systems of rule studied by anthropologists, to paraphrase Ruggie (1993: 149), the network of commercial and financial intermediation controlled by the Genoese merchant elite *occupied* places, but was not *defined* by the places it occupied. Marketplaces like Antwerp, Seville, and the mobile Bisenzone fairs were all as critical as Genoa itself to the organization of the space-of-flows through which the Genoese diaspora community of merchant bankers controlled the European system of interstatal payments. But none of these places – Genoa included – in itself defined the Genoese system of accumulation. Rather, the system

was defined by the flows of precious metals, bills of exchange, contracts with the Imperial government of Spain, and monetary surpluses which linked these places to one another. If the "pre-modern" analog of the Genoese system of accumulation are kin-based systems of rule, its closest "post-modern" analog is the Eurodollar market, a notable characteristic of which, in Roy Harrod's (1969: 319) words, "is that it has no headquarters or buildings of its own. . . . Physically it consists merely of a network of telephones and telex machines around the world, telephones which may be used also for purposes other than Euro-dollar deals." The Genoese system had no modern means of communication at its disposal. Physically, however, it consisted as exclusively as today's Eurodollar market of a mere network of communications which could be used for purposes other than the exchange of currencies.

The Genoese were not the only ones to control non-territorial networks of this kind. The Florentine, Lucchese, German, and English "nations" – as diaspora communities of merchant bankers were known in the sixteenth century – also did. In the latter half of the sixteenth century, however, the Genoese "nation" emerged as by far the most powerful among them. In 1617, Suárez de Figueroa went as far as claiming that Spain and Portugal had become "the Indies of the Genoese" (quoted in Elliott 1970b: 96). The hyperbole contained an important element of truth. As we shall detail in the next chapter, in the half-century or so preceding 1617 the "invisible hand" of Genoese capital, operating through the triangle-of-flows that linked Seville, Antwerp, and Bisenzone to one another, had succeeded in turning the power pursuits of Imperial Spain, as well as the industrial pursuits of Genoa's old rival and "model" city-state Venice, into powerful engines of its own self-expansion.

This powerful non-territorial network of capital accumulation was quintessentially capitalist in structure and orientation. According to Braudel (1984: 118), the Genoese approach to capitalism "was far more modern than [that of] Venice," and Genoa as city-state "may have been somewhat vulnerable by virtue of this forward position." If Venice was the prototype of all subsequent capitalist states, as we have argued in this chapter, the Genoese diaspora of merchant bankers was the prototype of all subsequent non-territorial systems of capital accumulation on a world scale:

> For three-quarters of a century, "the Genoese experience" enabled the merchant-bankers of Genoa, through their handling of capital and credit, to call the tune of European payments and transactions. This . . . must surely have been the most extraordinary example of convergence and concentration the European world-economy had yet witnessed, as it re-oriented itself around an almost invisible focus. For the focal point of the whole system was not even the city of Genoa itself, but a handful of banker-financiers (today we would call them a multinational consortium). And this is only one of the paradoxes surrounding the strange city of Genoa which, though apparently so cursed by fate, tended both before and after its "age of glory" to gravitate towards the summit of world business. To me Genoa seems always to have been, in every age, the capitalist city par excellence. (Braudel 1984: 157)

Here as elsewhere, Braudel's language and hesitations betray the difficulties involved in unveiling a capitalist power that is *not* "contained" by a state in Giddens's sense, but encompasses a system of states. These difficulties are rooted in the bias of our conceptual equipment in favor of the space-of-places that defines the process of state formation and against the space-of-flows of capital that defines the process of capital accumulation. And yet, historically, capitalism as a world system of accumulation and rule has developed simultaneously in both spaces. In the space-of-places – as Braudel puts it in a passage quoted in the Introduction – it triumphed by becoming identified with particular states. In the space-of-flows, in contrast, it triumphed by *not* becoming identified with any particular state but by constructing world-encompassing, non-territorial business organizations.

This simultaneous development in opposite directions has given rise to two closely related but distinct genealogies of modern capitalism. In the genealogy sketched in this chapter, modern capitalism originates in the prototype of the leading capitalist state of every subsequent age: the Venetian city-state. In the genealogy that we shall explore in the rest of the book, modern capitalism originates in the prototype of the leading world-encompassing, non-territorial business organization of every subsequent age: the Genoese diaspora "nation." The first genealogy describes the development of capitalism as a succession of world hegemonies. The second genealogy describes that same development as a succession of systemic cycles of accumulation.