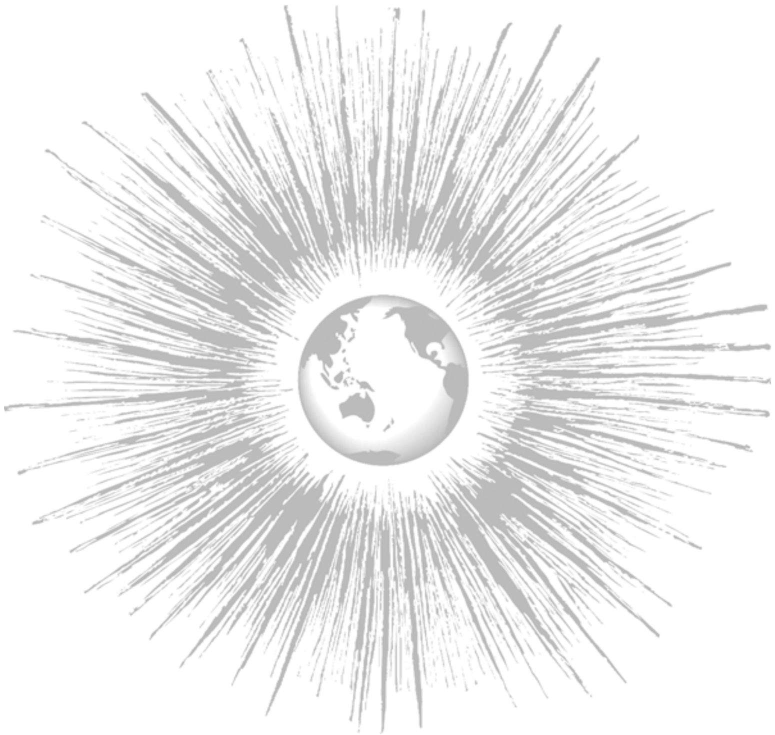

The Global Market

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By most accounts, the twentieth century has been one of the most revolutionary periods in world history, not just politically but economically and socially as well. In one key respect, however, the end of the century resembles its beginning. The entire world appears to us, as it did a century ago, to be integrated in a single market in which states are said to have no choice but compete intensely with one another for increasingly mobile capital.

Over the last ten years this perception has translated into the notion of "globalization" as a new process driven by major technological advances in the transmission, storage and processing of information. As critics of the notion have pointed out, however, the newness of the railroad, the steamship and the automobile, of the telegraph, the radio and the telephone in their days was no less impressive than the newness of the so-called "information revolution" is today (Harvey, 1995). Even the "virtualization of economic activity" is not as new as it may appear at first sight. A world-encompassing economy sharing close to real-time information first came into existence not in the 1970s but in the 1870s, when a system of submarine telegraph cables began to integrate financial and other major markets across the globe in a way not fundamentally different from today's satellite-linked markets (Hirst and Thompson, 1996). The speed and density of global networks of transport and communication are of course much greater today than hundred years ago. And yet, only in the 1990s has the degree of mutual integration of the world's national markets through trade, investment, borrowing and

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lending begun to approach the level attained at the beginning of the century (Zevin, 1992; Hirst and Thompson, 1996).

This similarity of conditions between the end and the beginning of the century should not be taken as a sign of continuity. On the contrary, underneath the similarity we can detect a fundamental transformation that destroyed the global market as instituted at the beginning of the century and recreated it on new foundations. This process of global "creative destruction" occurred through unprecedented human cataclysms (wars, revolutions and counterrevolutions) that have left an indelible mark on the twentieth century.

The possibility that an analogous process may characterize also the coming century has been raised recently by one of the most successful global financial operators of our days. Writing in *The Atlantic Monthly*, the Hungarian-born cosmopolitan financier George Soros ("The Capitalist Threat," 1997) compares the present age of triumphant laissez-faire capitalism with the similar age of a century ago. Notwithstanding the sway of the gold standard and the presence of an imperial power (Britain) prepared to dispatch gunboats to faraway places to maintain the system, the global market that had come into existence in the second half of the nineteenth century eventually broke down. Unless we are prepared to learn from experience, warns Soros, the chances are that also today's global system of unregulated markets will break down. What is this experience? And what can we learn from it?

THE GLOBAL MARKET UNDER BRITISH HEGEMONY

As David Harvey (1995) has pointed out, it is hard to imagine a more compelling description of "globalization" as we know it today than the one given 150 years ago in *The Communist Manifesto*. Driven by the need of a constantly expanding market, Marx and Engels tell us, the bourgeoisie nestles, settles and establishes connections "over the whole surface of the globe." As a result, production and consumption acquire a cosmopolitan character. "All old-established national industries... are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe.... In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations."

In reality, the reconstitution of the world market on industrial foundations—as Marx and Engels characterized this process—had hardly begun when *The Communist Manifesto* was first published. In 1848, there was nothing resembling a railway network outside Britain. But over the next thirty years, railways and steamships forged the globe into a single interacting economy as never before. The most remote parts of the world—writes Eric Hobsbawm—began "to be linked together by means of communication which had no precedent for regularity, for the capacity to transport vast quantities of goods and numbers of people, and above all, for speed." With this system of transport and communication being put in place, world trade expanded at unprecedented rates. Between the mid 1840s and the mid 1870s the volume of seaborne merchandise between the major European states more than quadrupled, while the value of the exchanges between Britain and the Ottoman Empire, Latin America, India and Australasia increased about sixfold (Hobsbawm, 1979).

Contrary to Marx's and Engels' highly perceptive vision, the formation of this global market was not the result of blind market forces acting in a political vacuum. Rather, it was the result of entrepreneurial forces acting under the leadership and with the active support of the epoch's most powerful state—the United Kingdom. It was an expression of British world hegemony.

British world hegemony rested on a combination of many circumstances, three of which are particularly germane to an understanding of the rise and demise of the 19th-century global market. The first was British mastery of the European balance of power. The second was British leadership in the liberalization of trade in the Western world. And the third was British leadership in empire-building in the non-Western world.

Ever since the European system of sovereign states had been formally established by the Treaties of Westphalia (1648), the independence of its constituent units had been guaranteed by balance-of-power mechanism, that is to say, by the tendency of three or more units capable of exerting power to behave in such a way as to combine the power of the weaker units against any increase in power of the strongest. Up to the end of the Napoleonic wars, the mechanism had operated through continuous war between changing partners. But between 1815 and 1914, Europe came to enjoy the longest period of almost continuous peace in its history. "The fact that in the nineteenth century the same [balance-of-power] mechanism resulted in peace rather than war—notes Karl Polanyi (1957)—is a problem to challenge the historian."

The anomaly can be traced largely to the fact that the system of sovereign states established at Westphalia was a truly anarchic system—a system, that is, characterized by the absence of central rule—whereas the system that emerged at the end of the Napoleonic wars was not truly anarchic anymore. Juridically, the sovereignty of states was reaffirmed, strengthened and gradually extended to the newly independent settler states of the Americas. Factually, however, the balance-of-power mechanism was transformed into an instrument of informal British rule over the expanded system of sovereign states.

In the course of the Napoleonic wars, Britain had already gained considerable leverage over the European balance of power, thanks to its superior command over extra-European resources. When the wars ended, Britain acted promptly to consolidate this leverage. On the one hand, it reassured the absolutist governments of Continental Europe organized in the Holy Alliance that changes in the balance of power on the Continent would occur only through consultation within the newly established Concert of Europe. On the other hand, it created two major counterweights to the power of the Holy Alliance. In Europe, it requested and obtained that defeated France be included among the Great Powers, albeit held in check by being ranked with second tier powers whose sovereignty was upheld by the Concert. In the Americas, it countered the Holy Alliance's designs to restore colonial rule by asserting the principle of non-intervention in Latin America, and by inviting the United States to support the principle. What later became the Monroe Doctrine—the idea that Europe should not intervene in American affairs—was initially a British policy.

Through these policies, Britain created the perception that the preservation and consolidation of a fragmented and "balanced" power structure in Continental Europe, which served its national interest, served also a more general interest—the interest of former enemies as well as of former allies, of the new republics of the Americas as well as of the old monarchies of Europe. Britain further encouraged this perception by returning parts of

the East and West Indies to the Netherlands and France and by providing Western governments and businesses with such "collective goods" as the protection of ocean commerce and the surveying and charting of the world's oceans. A peace process dominated by Britain thus brought into existence conditions for global economic integration more favorable than ever before. For as long as the European balance of power operated through continuous war between changing partners, mercantilist doctrines of national self-sufficiency and exclusive colonial exploitation had a natural appeal among European states. But as soon as Britain succeeded in turning the European balance of power into an instrument of peace, the appeal of national self-sufficiency waned and that of economic interdependence waxed.

This tendency was strengthened further by Britain's leadership in the liberalization of trade in the Western world—a leadership which materialized in the *unilateral* opening up of Britain's domestic market and culminated in the repeal of the Corn Laws in 1848 and of the Navigation Acts in 1849. Over the next twenty years, close to one third of the exports of the rest of the world went to Britain—the United States, with almost 25 percent of all imports and exports, being Britain's single largest trading partner, and European countries accounting for another 25 percent. Massive and rapidly expanding imports cheapened the costs of vital supplies in Britain, while providing the means of payment for the rest of the world to buy British manufactures. A large and growing number of states and territories was thus "caged" in a world-scale division of labor that strengthened each one's interest in participating in the British-centered global market, the more so as that market became virtually the sole source of critical inputs and sole outlet for remuneratively disposing of outputs.

British mastery of the European balance of power and British leadership in trade liberalization reinforced one another and jointly strengthened the economic interdependence of Western nations mediated by Britain's role as the workshop and central commercial entrepot of the world. The entire construct, however, rested on Britain's role as the leading Western imperial power in the non-Western world. It was this leadership that provided Britain with the resources needed to retain control over balance-of-power mechanisms and to practice free trade unilaterally in spite of persistent deficits in its balance of trade.

Critical in both respects was the formation of a British empire in India. India's huge demographic resources buttressed Britain's global power both commercially and militarily. Commercially, Indian workers were transformed from major competitors of European textile industries into major producers of cheap food and raw materials for Europe. Militarily, in Lord Salisbury's words, "India was an English barrack in the Oriental Seas from which we may draw any number of troops without paying for them." Paid entirely by the Indian tax-payer, these troops were organized in a European-style colonial army and used regularly in the endless series of wars (by one count, 72 separate campaigns between 1837 and 1900) through which Britain opened up Asia and Africa to Western trade, investment and influence. They were "the iron fist in the velvet glove of Victorian expansionism.... the major coercive force behind the internationalization of industrial capitalism" (Washbrook 1990).

Equally important, the infamous Home Charges—through which India was made to pay for the privilege of being pillaged and exploited by Britain—and the Bank of England's control over India's foreign exchange reserves, jointly turned India into the "pivot" of Britain's global financial and commercial supremacy. India's balance of payments deficit with Britain and surplus with the rest of the world enabled Britain to settle its deficit on current account with the rest of the world. Without India's forcible contribution to the balance of payments of Imperial Britain, it would have been impossible for the latter "to use the income from her overseas investment for further investment abroad, and to give back to the international monetary system the liquidity she absorbed as investment income." Moreover, Indian monetary reserves "provided a large *masse de manoeuvre* which British monetary authorities could use to supplement their own reserves and to keep London the centre of the international monetary system" (de Cecco, 1984).

In sum, the global market that came into existence in the second half of the nineteenth century through the extension of the industrial revolution to long-distance transport and communication was an expression of Britain' unparalleled and unprecedented global power. In the Western world this power was largely based on consent—on the perception that British dominance served a general Western interest. In the non-Western world, it was largely based on coercion—on Britain's capacity to forcibly extract resources from non-Western peoples. The destruction of the global market in the first

half of the twentieth century was due primarily to a gradual exhaustion of these two sources of Britain's global power.

CRISIS AND BELLE EPOQUE: THE EDWARDIAN ERA

"Once the great investments involved in the building of steamships and railroads came to fruition, whole continents were opened up and an avalanche of grain descended upon unhappy Europe" (Polanyi, 1957). The result was the Great Depression of 1873-96—in David Landes's words, "the most drastic deflation in the memory of man." The collapse of commodity prices brought down returns to capital. Profits shrank and interest rates fell so low as to induce economists "to conjure with the possibility of capital so abundant as to be a free good." Only towards the end of the century, prices began to rise and profits with them. With the improvement in business conditions, the gloom of the preceding decades gave way to a general euphoria. "Everything seemed right again—in spite of rattlings of arms and monitory Marxist references to the 'last stage' of capitalism. In all of western Europe, these years live on in memory as the good old days—the Edwardian era, *la belle époque*" (Landes, 1969).

The *belle epoque* did not last long. The "rattlings of arms" was not the harbinger of the "last stage" of capitalism but it did signal the approaching demise of the global market as instituted under British hegemony. As Hobsbawn (1968) put it, "when the economic sun of inflation once more broke through the prevailing fog, it shone on a very different world." Two things above all had changed. The industrial and the imperial underpinnings of British hegemony had been undermined beyond repair. Britain was no longer the workshop of the world, nor was it the only power actively seeking an overseas empire.

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

"Imperialism and half-conscious preparation for autarchy were the bent of Powers which found themselves more and more dependent upon an increasingly unreliable system of world economy" (Polanyi, 1957).

Right up to the First World War, the spread of industrialism and mercantilism did not lessen Britain's role as the central clearing house of the global market. On the contrary, it was precisely at this time of waning industrial and imperial supremacy that Britain benefited most from being the central entrepot of world commerce and finance. "As [Britain's] industries sagged, her finance triumphed, her services as shipper, trader and intermediary in the world's system of payments, became more indispensable. Indeed if London ever was the real economic hub of the world, the pound sterling its foundation, it was between 1870 and 1913" (Hobsbawm, 1968).

As Halford Mackinder pointed out at the turn of the century in a speech delivered to a group of London bankers, the industrialization of other countries enhanced the importance of a single clearing house. And the world's clearing house "will always be where there is the greatest ownership of capital." The British "are essentially the people who have capital, and those who have capital always share in the activity of brains and muscles of other countries" (quoted in Hugill, 1993).

In this respect, Britain's position in the Edwardian era resembled that of all previous leaders of world capitalism in the concluding phases of their respective leaderships. As Fernand Braudel observed in *Les temps du monde* (1979), all major expansions of world trade and production have resulted in an overaccumulation of capital beyond the normal channels of profitable investment. Whenever this happened, the organizing centers of the expansion were in a position to reaffirm, for a while at least, their dominance over world-scale processes of capital accumulation through greater specialization in financial intermediation. This has been the experience, not just of Britain in the Edwardian era, but also of Holland in the 18th century and of the Genoese capitalist diaspora in the second half of the 16th century. As we shall see, it has been also the experience of the United States in the *belle epoque* of the Reagan era.

At the roots of all these experiences we can detect a double tendency engendered by the overaccumulation of capital. On the one hand, capitalist organizations and individuals respond to the accumulation of capital over and above what can be reinvested profitably in established channels of trade and production by holding in liquid form a growing proportion of their incoming cash flows. This tendency creates an overabundant mass of liquidity that can be mobilized directly or through intermediaries in speculation, borrowing and lending. On the other hand, territorial organizations respond to the tighter budget constraints that ensue from the slow-down in the expansion of trade and production by competing intensely with one another for the capital that accumulates in financial markets. This tendency brings about massive, systemwide redistributions of income and wealth from all kinds of communities to the agencies that control mobile capital, thereby inflating and sustaining the profitability of financial deals largely divorced from commodity trade and production (Arrighi, 1994).

The organizing centers of the world-economic expansion that is coming to an end are uniquely well positioned to turn to their advantage this double tendency. Centrality in global networks of trade easily translates into privileged access to the global supply of surplus capital. This privileged access, in turn, enables the still dominant centers to profit handsomely from the escalating competition for mobile capital that pits states against one another. It was a mechanism of this kind that enabled Britain, or at least its capitalist classes, to go on profiting from the activities of brains and muscles of other countries long after the mid-19th-century world trade expansion centered on Britain had run out of steam. But Britain's capacity to go on profiting in this way, like that of its Dutch and Genoese predecessors, was not unlimited. As Braudel underscores, the recurrent dominance of finance capital is "a sign of autumn." It is the time when the leader of the preceding expansion of world trade reaps the fruits of its leadership by virtue of its commanding position over world-scale processes of capital accumulation. But it is also the time when that commanding position is irremediably undermined.

In Britain's case, the spread of industrialism left British commercial and financial supremacy more or less intact. But its effects on the geopolitical foundations of that supremacy were deleterious. German industrialization in particular, stands out as "the most important development of the half-century that preceded the First World War—more important even than the comparable growth of the United States, simply because Germany was enmeshed in the European network of power and in this period the fate of the world was in Europe's hands" (Landes 1969; see also Kennedy, 1987).

In this connection, it is important to bear in mind that the spread of industrialism in general, and German industrialization in particular, were no mere responses to the disruptions and dislocations of the Great Depression of 1873-96. They reflected also the ongoing application of the products and processes of the industrial revolution to the art of war—what William McNeill (1982) has called the "industrialization of war." As a result of this application, by the 1970s relative industrial capabilities had become the single most important determinant of the balance of power among Western states.

The change originated in the mid-19th century, when the French navy launched ever-more sophisticated armored steamships that seriously threatened British naval supremacy. Each French breakthrough provoked immediate countermoves in Great Britain, accompanied by public agitation for larger naval appropriations. As other states entered the armaments race and commercial competition added its force to national rivalry, the industrialization of war acquired a momentum of its own that neither Britain nor France, separately or jointly, could control. By the 1860s, a global, industrialized armaments business had emerged. "Even technically proficient government arsenals like the French, British, and Prussian, faced persistent challenge from private manufacturers, who were never loath to point out the ways in which their products surpassed government-made weaponry" (McNeill, 1982).

By expanding the range and freedom of action of sea powers, steamship technology correspondingly reduced the freedom of action of land powers. The land powers could recoup the loss only by mechanizing their overland transport system and by stepping up their own industrialization. The construction of efficient national railway systems thus came to be perceived as an integral aspect of war-and-state-making activities, not just in Russia, but in Central and Southern Europe as well, most notably in Prussia/Germany and Piedmont/Italy. The forward and backward linkages of European railway construction, in turn, became the single most important factor in the narrowing of the industrialization gap between Britain and continental European states.

In these and other ways, the spread of industrialism revolutionized strategic geography destroying simultaneously Britain's mastery of the European balance of power and British supremacy of the world's oceans. The insecurity

and growing militarism and Jingoism of Edwardian Britain "arose because the world seemed suddenly filled with industrial powers, whose metropolitan bases in terms of resources and manpower and industrial production were potentially much more powerful than Britain's" (Gamble, 1985). The rapid industrialization of Germany was particularly upsetting for the British, because it created the conditions for the rise of a land power in Europe capable of aspiring to Continental supremacy and of challenging Britain's maritime supremacy. After 1902, the race in armored steamships with Germany forced Britain to reconcentrate its navy in North Sea home waters, seriously undermining Britain's capacity to police its world-encompassing empire. This shift in the European and global balance of power "underlay the gradual re-forming of forces that culminated in the Triple Entente and Triple Alliance; it nourished the Anglo-German political and naval rivalry, as well as French fears of their enemy east of the Rhine; it made war probable and did much to dictate the membership of the opposing camps" (Landes, 1969).

THE DEMISE OF THE BRITISH-CENTERED GLOBAL MARKET

The sudden increase in governmental expenditures that preceded the First World War further strengthened the British-centered financial expansion. But once the war came, its astronomical costs destroyed in a few years the foundations of British financial supremacy. During the war, Britain continued to function as the banker and loan-raiser on the world's credit markets, not only for itself but also by guaranteeing loans to Russia, Italy and France. This looked like a repetition of Britain's eighteenth-century role as "banker of the coalition" during the wars against France. There was nonetheless one critical difference: the huge trade deficit with the United States, which was supplying billions of dollars' worth of munitions and foodstuffs to the Allies but required few goods in return. "Neither the transfer of gold nor the sale of Britain's enormous dollar securities could close this gap; only borrowing on the New York and Chicago money markets, to pay the American munitions suppliers in dollars, would do the trick" (Kennedy, 1987).

When Britain's own credit approached exhaustion, the US threw its economic and military weight in the struggle, tilting the balance to its debtors' advantage. The mastery of the European balance of power, which had belonged to Britain, now belonged to the United States. The insularity that the English Channel no longer provided, the Atlantic still did. More important, as innovations in means of transport and communications continued to overcome spatial barriers, America's remoteness became less of a disadvantage commercially and militarily. "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).

The idea of forging this "continent-sized island" into an integrated agro-industrial complex gained currency very early in US politics. The notion of an "American system" is in fact as closely associated with the protectionist program put forward by Henry Clay in his 1824 tariff speech before the US House of Representatives, as it is with the distinctly "American system of manufacture" that emerged in the production of small arms and other machine-produced artifacts in the middle of the 19th century. "Internal improvement, and protection of American interests, labor, industry and arts"—wrote one of Clay's contemporaries—"are commonly understood to be the leading measures, which constitute the American system" (Hounshell, 1984).

A truly integrated US Continental System, however, was realized only after the Civil War of 1860-65 eliminated all political constraints on the national-economy-making dispositions of Northern industrial interests. As wave after wave of mostly British financed railway construction swept the Continent, the United States' privileged access to the world's two largest oceans was established, and a full complement of exceptional productive capabilities—not just in industry but as well, and in particular, in agriculture—was brought into existence. At least potentially, this giant island was also a far more powerful military-industrial complex than any of the analogous complexes that were coming into existence in Europe. By the 1850s the US had become a leader in the production of machines for the mass production of small arms. In the 1860s, a practical demonstration of this leadership was given in the Civil War, "the first full-fledged example of an industrialized war." The US government's decision to downsize its military establishment after the Civil War froze only temporarily US leadership in industrialized warfare. "The explicit policy and potential military might of the US, briefly apparent during and at the close of the Civil War, warned European powers away from military adventure in the New World" (McNeill, 1982).

Even before the First World War, therefore, the United States had emerged interstitially as a regional power that seriously limited the global power of hegemonic Britain. The emergence of the north American giant began to undermine also Britain's financial supremacy. In 1910, the United States already controlled 31 percent of the world's official gold reserves, while the Bank of England regulated the entire world monetary system with gold reserves amounting to less than 15 percent of the US reserves. As long as the United States was heavily indebted to Britain—as it was right up to 1914—this situation did not interfere with the City of London commanding position in high finance, because British credits towards the United States constituted a claim on US gold reserves and, therefore, were as good as gold. However, as soon as the US bought back its debt from the British—as it did during the First World War by supplying Britain with armaments, machinery, food and raw materials far in excess of what the British could pay out of their current incomes—US reserves ceased to supplement colonial sterling reserves as the hidden prop of the British world monetary system.

Britain's liquidation of its US assets during the war weakened irremediably London's financial position and left the Bank of England in charge of regulating the world monetary system with wholly inadequate reserves. At the same time, US liquidity was set free for foreign and domestic lending on a massive scale. Within a decade, it became clear that the weakened world monetary system centered on London could not bear the strain of the ebbs and flows of US capital. Between 1924 and 1929, the US loaned abroad almost twice as much as Britain (Kindleberger, 1973). But already in 1927, the mounting boom on Wall Street began diverting US funds from foreign to domestic investment, acting "like a powerful suction pump." US foreign lending dropped from more than \$1,000 million in 1927 to \$700 million in 1928, and in 1929—when \$800 million of debt service payments on dollar debts came due—it turned negative (Eichengreen and Portes, 1990).

Although the first signs of an imminent collapse of the London-centered world monetary system came from the crash on Wall Street and a run on banks in the US southeast, the weakest link of the international financial structure was not in the United States but in Europe. The collapse of the great Credit-Anstalt bank of Vienna in May 1931 led to a run in Germany on the even larger Donatbank, which also collapsed. The London money market began to crack under the strain, and on September 21 Britain went off the gold standard, followed by another twenty-one countries around the world (Marichal, 1989; Kindleberger, 1988).

On the eve of the Crash of 1929, Norman H. Davis, a Wall Street banker and former Undersecretary of State, issued an ominous warning to the US government. After arguing that the solvency of Europe in servicing or repaying its debts to the US was wholly dependent on US leadership in curtailing trade barriers, he went on to paint a highly prescient picture of what might otherwise happen. "The world has become so interdependent in its economic life that measures adopted by one nation affect the prosperity of others. No nation can afford to exercise its rights of sovereignty without consideration of the effects on others. National selfishness invites international retaliation. The units of the world economy must work together, or rot separately" (quoted in Frieden, 1987).

Davis' advice fell on deaf ears. The United States did lead Europe but in a direction opposite to that advocated by the Wall Street banker. The Great Crash had yet to occur when, in May 1929, the House of Representatives passed the astronomical Smoot-Hawley Tariff Bill. After the Crash, in March 1930, also the Senate passed the Bill, which became law in June. The effects on the cohesion of what was left of the British-centered global market were devastating. The conference that was convened to settle the details of a tariff truce—which the US did not even bother to attend—led to nothing. Worse still, the Bill set off a wave of reprisals by nine countries directly, and many more indirectly. Britain's system of imperial preferences established by the Ottawa Agreement of 1932 was itself largely inspired by Canada's reaction to the Smoot-Hawley Tariff (Kindleberger, 1973).

The signing of the Smoot-Hawley Bill—wrote Sir Arthur Salter in 1932—was "a turning point in world history" (quoted in Kindleberger, 1973). Polanyi identified such a turning point in 1931—the year of the final collapse of the gold standard. Be that as it may, the two events were closely related aspects of a single breakdown—the final breakdown of the nineteenth-century global market. "In the early 1930s, change set in with abruptness. Its landmarks were the abandonment of the gold standard by Great Britain; the Five-Year Plans in Russia; the launching of the New Deal; the National Socialist Revolution in Germany; the collapse of the League in favor of autarchist empires. While at the end of the Great War nineteenth century ideals were paramount, and their influence dominated the following decade, by 1940 every vestige of the international system had disappeared and, apart from a few enclaves, the nations were living in an entirely new international setting" (Polanyi, 1957).

THE RECONSTRUCTION OF THE GLOBAL MARKET UNDER US HEGEMONY

The 1940 international setting was not as new as Polanyi claimed. Except for its unprecedented scale, brutality and destructiveness, the military confrontation that set the great powers against one another resembled the confrontation that led to the establishment of British world hegemony in the early 19th century. Soon, this confrontation too translated into the establishment of a new world hegemony and a new world order—an order now centered on and organized by the United States. By the time the Second World War was over, the main contours of the new order had taken shape: at Bretton Woods the foundations of a new monetary system had been established; at Hiroshima and Nagasaki new means of violence had demonstrated the military underpinnings of the new order; and at San Francisco new norms and rules for the legitimization of state-making and war-making had been laid out in the charter of the United Nations.

When this new world order was established, there was no global market to speak of. Once the British-centered global market collapsed in the early 1930s, in Hobsbawm's words (1992), "world capitalism retreated into the igloos of its nation-state economies and their associated empires" . The global market that came into existence in the second half of the century under US hegemony was as much a political construct as the global market that had collapsed in the first half of the century. But it was a substantially different construct. As a Study Group established in the early 1950s under the sponsorship of the Woodrow Wilson Foundation and of the National Planning Association emphasized, the United States could not promote world economic integration by means similar to those deployed by Britain in the 19th century. These means were inseparable from Britain's "dependence on foreign trade, the pervasive influence of its commercial and financial institutions, and the basic consistency between its national economic policies and those required for world economic integration." The United States, in contrast, was "only partially integrated into the world economic system, with which it [was] also partly competitive, and whose accustomed mode and pace of functioning it tends periodically to disturb. No network of American commercial and financial institutions exists to bind together and to manage the day-to-day operations of the world trading system" (National Planning Association 1955).

This difference goes a long way in explaining, first, why in the 1930s Norman Davis' exhortations to the US government to lead Europe in the liberalization of trade fell on deaf ears and, second, why the global market created by the United States after the Second World War differed substantially from that created by Britain in the 19th century. Norman Davis and other spokesmen for Wall Street were of course highly insightful in foreseeing that the unwillingness of nations to "work together" within the disintegrating world market meant that the nations would soon "rot separately." Nevertheless, it does not follow from this diagnosis that it was in the power or indeed in the interest of the United States to reverse the final demise of the global market as instituted under British hegemony.

The root cause of this demise was the growing dependence of the great powers of Europe on an increasingly unreliable global market. The ensuing political tension had exploded in 1914. The First World War and the Versailles Treaties eased the tension superficially by eliminating German competition. But the weakening of the global market's financial center reduced further its reliability. Under these circumstances there was little that the United States could have done to prevent the final breakdown of the global market, had its leadership been so inclined. In the 1920s the United States already accounted for over 40 percent of world production but had not "developed into the 'natural' center for intermediation in international economic exchanges that London had been." It remained "an insular giant...weakly integrated into the world economy". Its financial system "could not have produced the necessary international liquidity...through a credit-providing network of banks and markets.... London had lost its gold, but its markets remained the most important single centre for global commercial and financial intermediation" (Ingham, 1994).

At the same time, structural self-sufficiency, continental insularity, and competitiveness in the industrial production of means of war, put the United States in a unique position, not just to protect itself, but to profit even more massively than during the First World War from the breakdown of the British-centered global market. Initially the breakdown had more devastating effects on the US domestic economy than it did on the British economy. Nevertheless, the social and economic restructuring that occurred under Roosevelt's New Deal in direct response to these effects strengthened further the US position in the Second World War. "If before the war America's economy was one among other great economies, after the war it became the central economy in a rapidly developing world economy. If before the war America's military had only sporadic significance in the world's conflicts, after the war its nuclear umbrella backed by high-technology conventional forces terrorized one part of the world and gave security to the other" (Schurmann, 1974).

While boosting US power and wealth, the Second World War also revealed their insecure foundations in an increasingly chaotic world. In Franz Schurmann's words, "security and fear were symbolic of the major world view that governed the United States at the end of World War II—chaos produced fear which could only be combatted with security." This world view had already formed under Roosevelt during the war and rested on the same ideology of security that had informed the US New Deal. "The essence of the New Deal was the notion that big government must spend liberally in order to achieve security and progress. Thus postwar security would require liberal outlays by the United States in order to overcome the chaos created by the war" (Schurmann, 1974).

In Roosevelt's vision of a globalization of the US New Deal, the United Nations was supposed to become the nucleus of a world government that the United States would dominate much as the Democratic Party dominated the US Congress. Whereas the League of Nations was guided by an essentially 19th-century conception of international relations, the United Nations was openly guided by US constitutional principles. "The American Revolution had proven that nations could be constructed through the conscious and deliberate actions of men.... What Roosevelt had the audacity to conceive and implement was the extension of this process of government-building to the world as a whole" (Schurmann 1974).

The Bretton Woods Agreements—which initiated the reconstruction of the global market under US hegemony—were integral to this project. Just as the US New Deal had been premised on the transfer of control over US national finances from private to public hands, so the postwar global New Deal was premised on an analogous transfer at the world-economic level. As Henry Morgenthau argued at the time of the Bretton Woods Agreements, support for the UN meant support for the IMF because security and monetary institutions were complementary, like the blades in a pair of scissors (cited in Calleo and Rowland, 1973). Indeed, the primary significance of Bretton Woods in the reconstruction of the global market was not so much the gold-dollar-exchange standard envisaged by the Agreements, nor the international monetary organizations created by them (the IMF and the World Bank), but the substitution of public for private regulation in high finance—in itself a major departure from the global market as instituted under British hegemony (Ingham, 1994).

This substitution was nonetheless not enough to bring about the kind of massive redistribution of liquidity and other resources from the United States to the world at large that was needed to overcome the chaos created by the war. Once the war was over, the only form of redistribution of world liquidity that met no opposition in the US Congress was private foreign investment. Plenty of incentives were created to increase the flow of US capital abroad. But all the incentives notwithstanding, US capital showed no disposition to break the vicious circle that was constraining its own global expansion. Scarce liquidity abroad prevented foreign governments from removing exchange controls; exchange controls discouraged US capital from going abroad; and small flows of US private foreign investment kept liquidity scarce abroad (Block, 1977).

The vicious circle was eventually broken only through the "invention" of the Cold War. What cost-benefit calculations and appeals to *raison d'état* could not achieve, fear of a global communist menace did. As long as surplus capital stagnated within the US and its regional hinterlands (Canada and Latin America), chaos in Eurasia continued to escalate and to create a fertile ground for the take over of state power by revolutionary forces. The genius of President Truman and of his advisers was to attribute the outcome of systemic circumstances that no particular agency had created or controlled to the allegedly subversive dispositions of the other military superpower, the USSR (McCormick, 1989).

By so doing, Truman turned Roosevelt's "one-worldist" vision of US hegemony—which aimed at weaving the USSR into the new order—into a "free-worldist" policy of containment directed against the USSR. And yet, "the kinds of policies that containment dictated for the free world were essentially those already sketched out in Roosevelt's vision: American military power strategically placed throughout the world, a new monetary system based on the dollar, economic assistance to the destroyed countries, political linkages realized through the United Nations and other international agencies" (Schurmann, 1974).

At the same time, building up Western Europe and Japan as bastions and showpieces of a global market economy centered on and organized by the United States was a far more concrete and attainable objective than Roosevelt's idea of remaking the entire world in the American image. The Marshall Plan was the first step in the pursuit of this objective. However, its effectiveness was seriously constrained throughout the late 1940s by a continuing dollar shortage. Balance of payment difficulties compounded national jealousies in preventing progress within the Organization for European Economic Cooperation (OEEC) in general, and in European interstate monetary cooperation in particular.

European integration and world-economic expansion required a far more comprehensive recycling of world liquidity than that involved in the Marshall Plan and other aid programs. This more comprehensive recycling eventually materialized through the most massive rearmament effort the world had ever seen in times of peace. As its architects—Secretary of State Acheson and Policy Planning Staff chief Paul Nitze—well realized, only an effort of this kind could overcome the limits of the Marshall Plan. "Domestic rearmament would provide a new means to sustain demand so that the economy would no longer be dependent on maintaining an export surplus. Military aid to Europe would provide a means to continue providing aid to Europe after the expiration of the Marshall Plan. And the close integration of European and American military forces would provide a means to prevent Europe as an economic region from closing itself off from the United States" (Block, 1977).

Massive rearmament during and after the Korean war did indeed solve once and for all the liquidity problems of the postwar world economy. Military aid to foreign governments and direct US military expenditures abroad—both of which grew constantly between 1950 and 1958 and again between 1964 and 1973—provided world trade and production with all the liquidity they needed to expand. And with the US government acting as a highly permissive world central bank, world trade and production did expand at unprecedented rates. According to Thomas McCormick (1989) the 23-year period inaugurated by the Korean War and concluded by the

Paris peace accords in early 1973, which virtually ended the Vietnam War, was "the most sustained and profitable period of economic growth in the history of world capitalism."

This is the period that has been widely acclaimed as "the Golden Age of Capitalism" (see, among others, Marglin and Schor, 1991 and Hobsbawm, 1994). There can be little doubt that the expansion of world trade and production in the 1950s and 1960s was exceptional by historical standards. But so was expansion in the 1850s and 1860s—the period that Hobsbawm (1979) has called the "Age of Capital." Which age was more "golden" for world capitalism, it is hard to tell. But for our purposes the two periods had two important features in common. First, they were both periods of reconstitution of the global market by the world's most powerful state. And second, they both ended in a crisis of overaccumulation followed by a worldwide financial expansion.

CRISIS AND BELLE EPOQUE: THE REAGAN ERA.

Once the Western European and Japanese industrial apparatuses had been rebuilt and upgraded technologically and organizationally to match US standards, the cooperative relations among the main centers of capital accumulation on which the great expansion of the 1950s and 1960s was based gave way to an increasingly intense mutual competition. In the 1870s, a similar intensification of intercapitalist competition translated into rapidly falling prices for products—"the most drastic deflation in the memory of man" discussed earlier. In the late 1960s and early 1970s, in contrast, the intensification of intercapitalist competition translated into rapidly rising prices for primary inputs: first of labor—what E.H. Phelps-Brown (1975) aptly called the "pay explosion" —and then of energy.

Real wages in Western Europe and North America had been rising throughout the 1950s and 1960s. But whereas before 1968 they rose more slowly than labor productivity (in Western Europe) or in step with it (in the United States), between 1968 and 1973 they rose much faster, thereby provoking a major contraction in returns to capital invested in trade and production. The pay explosion was still in full swing when at the end of 1973 an equally powerful upward pressure on the purchase prices of select primary products materialized in the first "oil shock." Between 1970 and 1973 this upward pressure had led already to a twofold increase in the price

of crude oil imported by OECD countries. But in 1974 alone that same price increased threefold, deepening further the crisis of profitability (Armstrong and Glyn, 1986; Itoh, 1990).

In spite of their different manifestations, the crises of profitability of the 1870s and of the 1970s were both crises of overaccumulation—crises, that is, due to an accumulation of capital over and above what could be reinvested profitably in established channels of trade and production. And in both crises capitalist organizations responded to the consequent squeeze on profits by diverting a growing proportion of their incoming cash flows from production and trade in commodities to hoarding, lending, borrowing and speculating in financial markets. Thus, in the critical years 1968-73 deposits in the Eurodollar market experienced a sudden upward jump followed by twenty years of explosive growth. And it was during these same six years that the system of fixed parities between the main national currencies and the US dollar and between the US dollar and gold—which had been in force throughout the great expansion of the 1950s and 1960s—was abandoned in favor of floating exchange rates.

These were distinct but mutually reinforcing developments. On the one hand, the accumulation of a growing mass of world liquidity in deposits that no government controlled put increasing pressure on governments to manipulate the exchange rates of their currencies and interest rates so as to attract or repel liquidity held in offshore markets in order to counter shortages or surfeits in their domestic economies. On the other hand, continuous changes in exchange rates among the main national currencies and in rate-of-interest differentials multiplied the opportunities for capital held in offshore money markets to expand through trade and speculation in currencies. As a result of these mutually reinforcing developments, by the mid 1970s the volume of purely monetary transactions carried out in offshore money markets already exceeded the value of world trade many times over (Arrighi, 1994).

This tendency towards an explosive growth of offshore money markets that no government controlled—and the consequent resurgence of private high finance entailed by this tendency—originated in the disposition of US multinationals and banks to avoid taxation and regulation in the United States by "parking" their profits and surplus funds in dollar denominated deposits in London and other European financial centers (de Cecco, 1982;

Frieden, 1987). But the tendency received a powerful boost by the increase in oil prices. Already before 1973, this increase was generating "oil rents" well in excess of what their recipients could spend usefully or productively. But the oil shock of late 1973, "not only produced the $80 billion surpluses of 'petrodollars' for the banks to recycle, thus swelling the importance of the financial markets and the institutions operating in them, but it also introduced a new, sometimes decisive and usually quite unpredictable factor affecting the balance of payments positions of both the consumer, and eventually the producing, countries" (Strange, 1986). The largest oil-consuming countries were of course the major capitalist states themselves. Their attempts to protect their domestic economies from the growing uncertainty of energy supplies through deflationary policies aimed at producing a trade surplus in their balance of payments, or through borrowing in the Eurocurrency market, intensified further intercapitalist competition and added new fuel to the ongoing financial expansion (Arrighi, 1994).

Throughout the 1970s, however, the diversion of capital from trade and production to financial markets failed to revive profitability and to resolve the underlying crisis of overaccumulation. As in the Great Depression of 1873-96, the overabundance of capital relative to profitable outlets drove profits and interest rates so low as to give the impression that capital had become a free good. Although nominal rates of interest were rising, they were not rising fast enough to keep up with inflation, so that in the mid-1970s real interest rates plunged below zero (World Bank 1985).

It was only at the end of the 1970s and, above all, in the early 1980s that the situation changed radically. All of a sudden capital became a scarce good again, real interest rates shot up, and returns to capital in financial markets rose to unprecedented levels. As in the Edwardian *belle epoque*, everything seemed right again for the propertied classes, in spite of a further slowdown in the rate growth of world production, a major deterioration in relations between the two superpowers and a new escalation in their armament race—what Fred Halliday (1986) has called the Second Cold War. The capitalist euphoria reached new heights at the end of the 1980s when the Second Cold War ended with the disintegration of the Soviet empire in Eastern Europe, and shortly afterwards of the USSR itself.

At the roots of this magic turnaround in capitalist fortunes we can detect a major reversal in US policies. When the gold-dollar standard established at Bretton Woods collapsed between 1968 and 1973, the US government lost much of the control that it previously exercised on the global supply of money. But since there was no viable alternative to the dollar as the principal international reserve currency and medium of exchange, the abandonment of the gold-dollar-exchange standard resulted in the establishment of a pure dollar standard (Cohen, 1977). For about five years—from 1973 to 1978—this pure dollar standard seemed to endow the US government with an unprecedented freedom of action in expanding the global supply of money, because it eliminated any need to control US balance of payments deficits. The continuing expansion of Eurodollar markets did of course create an additional source of world money, which the US government did not control and which other governments could tap. Nevertheless, borrowing in the Eurodollar market was subject to conditions of credit-worthiness which, as a rule, included restraint in running balance of payments deficits and minimal adherence to the principles of "sound money." Only the US was in a position to tap the resources of the rest of the world virtually without restriction, simply by issuing its own currency (Parboni, 1981).

US seigniorage privileges, however, were not as unlimited as they appeared in the mid-1970s. Only a fraction of the liquidity created by the US monetary authorities found its way in new trade and production facilities. Most of it turned into petrodollars and Eurodollars, which reproduced themselves many times over through the mechanisms of private interbank money creation and promptly reemerged in the global market as competitors of the dollars issued by the US government.

In the last resort, this growing competition between private and public money benefited neither the US government nor US business. On the one hand, the expansion of the private supply of dollars set an increasingly larger group of countries free from balance-of-payments constraints in the competitive struggle over the world's markets and resources, and thereby undermined the seigniorage privileges of the US government. On the other hand, the expansion of the public supply of dollars, fed offshore money markets with more liquidity than could possibly be recycled safely and profitably. It thereby forced the banks that controlled the Eurodollar business (many of them American) to compete fiercely with one another in pushing money on countries deemed credit-worthy, and indeed in lowering the standards by which countries were deemed credit-worthy. If pushed too far, this competition could easily result in the common financial ruin of the US government and of US business.

By 1978 the threat of an imminent demise of the US dollar as world money (either through a catastrophic collapse of the US domestic and global credit system or through the rise of an alternative reserve currency such as the ECU) had become quite real. When on October 6, 1979 the Chairman of the US Federal Reserve, Paul Volker began taking forceful measures to restrict the supply of dollars and to bid up interest rates in world financial markets, he was responding to a crisis of confidence in the dollar—to the fact, that is, that for the second time in a year corporations, banks, central banks, and other investors had stopped accepting dollars as the universal currency. "[I]t became obvious to Volker that a collapse of the dollar was a very real possibility perhaps leading to a financial crisis and pressure to remonetize gold, which the United States had fought doggedly for over a decade." And when a few months later the "flight of hot Arab money into gold" in the wake of the Iranian crisis and the Soviet invasion of Afghanistan pushed gold prices to an all-time high of $875, he took even harsher measures to stop the growth of the US and global money supply (Moffitt 1983).

This switch from highly permissive to highly restrictive monetary policies in support of "sound money"—undertaken in the last year of the Carter Administration—initiated the abandonment under Reagan of the ideology and practice of the New Deal. Just as the launching of the New Deal and its subsequent globalization under Roosevelt and Truman were premised on the transfer of control over high finance from private to public hands, so its abandonment under Reagan was premised on the resurgence of private high finance at the commanding heights of the global economy. This resurgence had begun in the 1970s under the impact of the crisis of overaccumulation and related collapse of Bretton Woods monetary system, but it came of age only in the 1980s under the impact of the great reversal in US policies initiated by Volker and brought to its logical conclusions by the Reagan Administration.

The essence of the reversal was a shift of the US government from being a competitor of private high finance—as it essentially was throughout the 1970s—to being its most faithful and powerful supporter. Volker's deflationary maneuver in support of the US dollar was only the first step

in this direction. Then came a major "deregulation" drive aimed at creating in the United States conditions as favorable as anywhere else in the world for financial speculation. Finally, and most important, came one of the most spectacular expansions of state indebtedness in world history and a consequent major escalation in interstate competition for mobile capital. When Reagan entered the White House in 1981, the federal budget deficit stood at $74 billion and the total national debt at $1 trillion. By 1991 the budget deficit had quadrupled to more than $300 billion a year and the national debt had quadrupled to nearly $4 trillion. As a result, in 1992 net federal interest payments amounted to $195 billion a year, and represented 15 percent of the total budget—up from $17 billion and 7 percent in 1973. "Formerly the world's leading creditor, the United States had borrowed enough money overseas—shades of 1914-45 Britain—to become the world's leading debtor" (Phillips 1994).

We shall later return to Kevin Phillips' passing reference to "shades of Britain 1914-45." For now, however, let us emphasize how the combined effect of monetary orthodoxy in support of "sound money," "deregulation" of financial and other markets, and escalation of the US national debt was to shift the burden of intensifying competition from the ranks of capital onto the shoulders of states all over the world. And as global competition for mobile capital intensified, the self-expansion of capital in financial markets became explosive. In the 1980s, the total value of financial assets increased two and a half times faster than the aggregate GDP of all rich countries; and the volume of trading in currencies, bonds and equities five times faster (Sassen, 1996).

It was in this context that the notion of "globalization" as a new condition in which even the most powerful of states had no alternative but obey the dictates of global market forces gained currency. According to Fred Bergsten, by the 1995 Halifax meeting of the Group of Seven (G-7) the "immense flow of private capital [had] intimidated the officials from any effort to counter them," In reporting this assessment, Eric Petersen wondered whether those flows could be countered at all and envisioned a "coming hegemony of global markets." As the "competition for global capital" intensifies, deterritorialized market forces (primarily business organizations but also some individuals) place increasingly narrower constraints on the economic policies of even the largest of nations, the United States included.

"They will also have an impact on the U.S. capacity to carry out effective security and foreign policies abroad and will determine the extent to which Washington can maintain its world leadership role" (Petersen 1995).

The idea of a general disempowerment of states vis-a-vis global market forces has been challenged on various grounds. Some critics have pointed out that states have been active participants in the process of integration and deregulation of nationally segmented and publicly regulated financial markets. Moreover, this active participation occurred under the aegis of neoliberal doctrines of the minimalist state that were themselves propagated by particular states—most notably, Britain under Margaret Thatcher and the United States under Ronald Reagan. To be sure, even if it originated in state action, globalization may have acquired a momentum that makes its reversal by states impossible or undesirable because of the costs involved. However, there is no agreement among analysts on the extent to which globalization, whether reversible or not, actually constrains state action (for a survey of the different positions, see Cohen 1996).

Some analysts even interpret globalization as the expression of the further empowerment of the United States. Indeed, various aspects of the seemingly global triumph of Americanism that accompanied the financial expansion of the 1980s are themselves widely perceived as signs of globalization. The most widely recognized signs are the growing importance of agencies of world governance that are influenced disproportionately by the United States and its closest allies, such as the UN Security Council, NATO, the G-7, the IMF, the World Bank and the newly formed World Trade Organization (Sassen 1996; see also Gill 1990 and Sklair 1991).

Our account of the unmaking and remaking of the global market in the 20th century concurs with the idea that the financial expansion of the 1980s was the outcome of state action—most notably the 1979-82 reversal in US economic policies—and that the expansion has indeed resulted in a reflation of US power. But it concurs also with the idea that there is much *deja vu* in the tendencies that are hailed as the great novelties of the late 20th century. Like Harvey, Hirst and Thompson, Zevin, Soros and many others we see important analogies between the present, US-centered financial expansion and the British-centered financial expansion of the late-19th and early-20th centuries. Indeed, following Braudel, we went further and suggested that these expansions had earlier precedents in the 18th and 16th centuries.

As argued at length elsewhere (Arrighi, 1994; Arrighi, Silver et al, 1999), all these expansions have been the closing moments of successive stages in the formation of the global market. In each of them, the governmental and business organizations that had reconstituted the global market on new foundations were also best positioned to reap the benefits, and shift on others the burdens, of the intensifying competition that ensued from the reconstitution. In this respect, the United States in the 1980s and 1990s has simply replicated on a larger scale and with a faster tempo the earlier experiences of its British, Dutch, and Genoese predecessors. but in all these earlier experiences, the financial expansions were also moments of change of guard at the commanding heights of world capitalism—a change of guard that invariably occurred through a disintegration of the global market as instituted under the old guard. What are the chances that this will also be the experience of the United States and today's global market? By way of conclusion, let us assess these chances through a brief comparison of present circumstances with those that led to the demise of the British-centered global market in the first half of the 20th century.

THE FUTURE OF THE GLOBAL MARKET

A first consideration concerns geopolitics. The British-centered global market was built from the bottom up on the basis of Britain's mastery of the European balance of power and leadership in empire-building in the non-Western world. As soon as the spread of industrialism undermined these two conditions, the global market began to fracture under the impact of resurgent mercantilisms and competing imperialisms and eventually collapsed under the impact of generalized war among actual or would-be great powers.

Under US hegemony, in contrast, the global market was rebuilt from the top down as a conscious act of world government premised on the double supersession of balance-of-power politics and Western colonialism in the non-western world. Integral to this conscious act of world government was the creation of supranational organizations (most notably the UN and Bretton Woods institutions) that extended sovereignty rights to non-Western peoples (thereby legitimating the ongoing process of decolonization) but simultaneously deligitimated the balance-of-power mechanisms that had previously guaranteed the sovereign equality of states. The "sovereign equality" upheld in the charter of the United Nations for all its members was "specifically supposed to be legal rather than factual—the larger powers were to have special rights, as well as duties, commensurate with their superior capabilities" (Giddens, 1987; see also Arrighi, Silver et al, 1999).

This radical transformation of the modern system of sovereign states was based on, and in turn consolidated, the unprecedented centralization of global military capabilities brought about by the industrialization of war. This centralization received a new powerful impulse by the development of nuclear weapons during the Second World War, the launching of the Soviet *Sputnik* in 1957, and the US space program in 1961. In spite of General de Gaulle's attempts to keep up with these developments, global military capabilities became an effective "duopoly" of the United States and the USSR.

Under this duopoly, a "balance of terror" rather than a balance of power kept the armament race going. As McNeill notes, "with the discovery of atomic explosives, human destructive power reached a new, suicidal level, surpassing previous limits to all but unimaginable degree." Unimaginable as it was, this degree was surpassed again when the installation of hundreds of long-range missiles in the decade following 1957 empowered the United States and the USSR to destroy each other's cities in a matter of minutes. The signing of a five-year Strategic Arms Limitation Treaty (SALT) in 1972 consolidated the balance of terror between the two superpowers but did not halt the armament race. It simply shifted the race "to other kinds of weapons not mentioned in the treaty for the good reason that they did not yet exist" (McNeill, 1982).

In the scientific discovery of new weapons system—even more than in the industrialization of war—the superpower with greater command over global financial resources could turn the balance of terror to its own advantage by stepping up, or by threatening to step up, its research efforts to levels that the other superpower simply could not afford. This is what the United States did in the Second Cold War, thereby driving the USSR into bankruptcy and bringing the tendency toward the centralization of global military capabilities to its ultimate consequences. In this respect, the *belle epoque* of the late 20th century differs radically from that of the Edwardian era. In the course of the financial expansion that opened the century, the proliferation of military-industrial complexes undermined and eventually destroyed Britain's mastery of the European balance of power and of the oceans. In the course of the financial expansion that is closing the century, in contrast, global military capabilities have been further centralized in the hands of the declining hegemonic power. Under these circumstances, it is highly unlikely that the US-centered global market will disintegrate because of military rivalries and wars among actual and would-be great powers.

It does not follow, however, that the global market will remain centered on the United States or that it can withstand the tensions engendered by the widening and deepening of interstate competition for mobile capital. Indeed, the very centralization of global military capabilities that has sheltered the US-centered global market from the kind of geopolitical tensions that eventually destroyed the British-centered global market, has weakened the United States financially in a way similar to the weakening of Britain in the wake of the First World War. Phillips' passing reference to "shades of 1914-45 Britain" in his previously quoted description of the transformation of the United States into the leading debtor nation in the Reagan era hints at this similarity. The Second Cold War drove the USSR into bankruptcy leaving the United States as the one and only "first-rate power" and with "no prospect in the immediate future of any power to rival it"—as a triumphalist US commentator boasted. But it left the United States bereft of the financial resources needed to exercise effectively global supremacy. As a senior US foreign policy official lamented, the United States no longer had "the money to bring the kind of pressure that will produce positive results anytime soon" (both quotes from Ruggie1994).

The tightening of financial constraints on US global power, both military and political, was closely associated with a major shift of the center of world-scale processes of production, trade and accumulation from North America to East Asia. The extent and prospective permanence of this shift are the subject of much controversy. But as a recent comparative analysis of rates of economic growth by the Union Bank of Switzerland (UBS) has shown, over the last century there is "nothing comparable with the [East] Asian economic growth experience of the last three decades." Other regions grew as fast during wartime dislocations (e.g. North America during the Second World War) or following such dislocations (e.g. Western Europe after the Second World War). But "the eight-percent plus average annual income growth set by several [East] Asian economies since the late 1960s is unique in the 130 years of recorded economic history." This growth is all the more remarkable in having been recorded at a time of overall stagnation or near stagnation in the rest of the world, and in having "spread like a wave" from Japan to the Four Tigers (S. Korea, Taiwan, Singapore and Hong Kong), from there to Malaysia and Thailand, and then on to Indonesia, China and, more recently, to Vietnam (Union Bank of Switzerland 1996).

(The East Asia advance in global high finance has been even more spectacular. The Japanese share of the total assets of *Fortune's* top fifty banks in the world increased from 18 percent in 1970, to 27 percent in 1980, to 48 percent in 1990. As for foreign exchange reserves, the East Asian share of the top ten central banks' holdings increased from 10 percent in 1980 to 50 percent in 1994. Clearly, if the United States no longer has "the money to bring the kind of pressure that will produce positive results," East Asian states, or at least some of them, have all the money they need to keep at bay the kind of pressure that is driving states all over the world—the United States included—to yield to the dictates of increasingly mobile and volatile capital.

An overabundance of capital, of course, brings problems of its own, as witnessed by the collapse of the Tokyo stock exchange in 1990-2 and the more devastating financial crisis that swept the entire East Asian region in 1997. For all their devastations, however, these crises (and the other crises that in all likelihood will hit East Asia in the years to come) in themselves are no more a sign of a roll-back of East Asian financial power vis-a-vis the United States than Black Thursday in Wall Street in 1929 (and the devastations of the US economy that ensued) were a sign of a roll-back of US financial power vis-a-vis Britain. As Braudel has pointed out in discussing the financial crisis of 1772-3—which began in London but reflected an ongoing shift of world financial supremacy from Amsterdam to London—newly emerging centers of the world economy are "the first place in which the seismic movements of the system show themselves." As further and more compelling evidence in support of this hypothesis, he notes that the crisis of 1929-31 began in New York but reflected an ongoing shift of world financial supremacy from London to New York (*Les temps du monde*, 1979).

Braudel does not explain why this should have been so. A good part of the explanation, however, can be inferred from Geoffrey Ingham's previously quoted observation that in the 1920s the United States had not yet developed the capacity to replace Britain as the organizing center of the global economy, in spite of its spectacular advances in production and capital accumulation. *Mutatis mutandis*, similar considerations apply to London vis-a-vis Amsterdam in the 1770s, and to Tokyo and other East Asian financial centers vis-a-vis New York and Washington in the 1990s. The very speed, scale and scope of capital accumulation in the rising centers clashes with the latter's limited organizational capabilities to create the systemic conditions for the enlarged reproduction of their expansion. Under these circumstances, the most dynamic centers of world-scale processes of capital accumulation tend to become the epicenters of systemic instability. In the past, this instability was an integral aspect of the ongoing structural transformations of world capitalism that several decades later resulted in the establishment of a new hegemony and in the reconstitution of the global market on new foundations. Whether the present instability is the harbinger of a future world hegemony and global market centered on East Asia it is too early to tell. But whatever its future outcome, the present financial turbulence centered on East Asia should be taken as a warning that in retrospect the global market as presently instituted may well turn out to be as temporary a construct as the 19th century global market.

Soros is not alone in fearing that this outcome is not just possible but likely. Even the most enthusiastic supporters of interstate competition in globally integrated financial markets have begun to fear that financial globalization is turning into "a brakeless train wreaking havoc". They worry about a "mounting backlash" against the effects of such a destructive force, first and foremost "the rise of a new brand of populist politicians" fostered by the "mood... of helplessness and anxiety" that is taking hold even of wealthy countries (quoted in Harvey, 1995). A backlash of this kind has been a typical feature of past financial expansions. It is a sign that the massive redistribution of income and wealth, on which the expansion rests, has reached or is about to reach its limits (Arrighi, Silver et al, 1999).

Ultimately, these are social limits. The global New Deal that enabled the United States to reconstruct the global market had a social and not just a political and economic content. It promised a prosperous and secure existence for the working classes of rich countries, and an equally prosperous and secure existence in a more or less distant future—that is, "development"—for the peoples of poor countries. It was this double promise, rather than crude anti-communism, that mobilized widespread support among subordinate social strata throughout the world for the US reconstruction of the global market.

By the late 1960s, it became clear that the United States had great difficulties in delivering on its promises. These difficulties were at the roots of the double crisis of world capitalism and US hegemony of the 1970s. As we have seen, the double crisis was resolved—or so it seemed—only when between 1979 and 1982 the United States began competing aggressively in global markets for mobile capital.

Although this change in US policies involved a virtual abandonment of the social objectives of the global New Deal, it was presented as a continuation of their pursuit by new means. The success of the United States in outcompeting all other states in global financial markets, and in forcing its great rival of the Cold War era into bankruptcy, gave credibility to the claim that all states and their citizens would benefit from following the prescriptions of the neo-liberal creed propagated by Washington. Nevertheless, the more intense and widespread interstate competition for mobile capital became, the greater the number and variety of communities—especially but not exclusively working-class communities—that experienced major disruptions in their established ways of life with few benefits to compensate for the disruptions. The neo-liberal creed propagated by Washington has thus begun to appear for what it really was: not a continuation of the global New Deal by new means, but a complete reversal of its objectives for the benefit of the United States and of the world's wealthier strata.

As this perception spreads, states—the United States included—will find it increasingly difficult to mobilize popular support for policies whose burdens are borne by the vast majority of the world's population and whose benefits are reaped by a minority. Under these circumstances, the tendency towards what Polanyi (1957) called "the self-protection of society" against the ravages of "the self-regulating market" is bound to become much stronger than it already is. Whether the ruling groups of the declining and rising centers of the global economy have the capabilities to accommodate this stronger tendency, so as to avoid yet another catastrophic collapse of the global market, is something that for now remains entirely unclear.

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