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THE SOCIAL AND POLITICAL ECONOMY OF GLOBAL TURBULENCE

'Depression', wrote Thorstein Veblen shortly after the end of the Great Depression of 1873–96, 'is primarily a malady of the affections of the business men. That is the seat of the difficulty. The stagnation of industry and the hardship suffered by the workmen and other classes are of the nature of symptoms and secondary effects'. To be efficacious remedies must, therefore, be such 'as to reach this emotional seat of the trouble and . . . restore profits to a "reasonable" rate'.[1] Between 1873 and 1896 prices had fallen unevenly but inexorably, in what David Landes has called 'the most drastic deflation in the memory of man'. Along with prices, the rate of interest had dropped 'to the point where economic theorists began to conjure with the possibility of capital so abundant as to be a free good. And profits shrank, while what was now recognized as periodic depressions seemed to drag on interminably. The economic system appeared to be running down'.[2]

In reality, the economic system was not 'running down'. Production and investment continued to grow not just in the newly industrializing countries of the time (most notably, Germany and the US) but in Britain as well—so much so that, writing at the same time as Landes, another historian could declare the Great Depression of 1873–96 nothing but a 'myth'.[3] Nevertheless, as Veblen suggests, there is no contradiction in saying that there was a 'great depression' at a time of continuing expansion in production and investment. On the contrary: the great depression was not a myth precisely *because* production and trade, in Britain and in the world economy at large, had continued to expand too rapidly for profits to be maintained at what was considered a 'reasonable' rate.

More specifically, the great expansion of world trade from the middle of the nineteenth century had led to a system-wide intensification of competitive pressures on the agencies of capital accumulation. An increasing number of business enterprises, from an increasing number of locations across the UK-centred world economy, were getting in one another's way in the procurement of inputs and disposal of outputs, thereby destroying one another's previous 'monopolies'—that is, their more-or-less exclusive control over particular market niches.

> This shift from monopoly to competition was probably the most important single factor in setting the mood for European industrial and commercial enterprise. Economic growth was now also economic struggle—struggle that served to separate the strong from the weak, to discourage some and toughen others, to favour the new . . . nations at the expense of the old. Optimism about the future of indefinite progress gave way to uncertainty and a sense of agony.[4]

But then, all of a sudden, as if by magic,

> the wheel turned. In the last years of the century, prices began to rise and profits with them. As business improved, confidence returned—not the spotty, evanescent confidence of the brief booms that had punctuated the gloom of the preceding decades, but a general euphoria such as had not prevailed since . . . the early 1870s. 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*.[5]

As we shall see, there was nothing magical about the sudden restoration of profits to a more 'reasonable' level, and the consequent recovery of the British and Western bourgeoisies from the malady provoked by 'excessive' competition. For now, let us simply note that not everyone benefited from the 'beautiful times' of 1896–1914. Internationally, the main beneficiary of the recovery was Britain. As its industrial supremacy

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[1] Thorstein Veblen, *The Theory of Business Enterprise*, New Brunswick, NJ 1978, p. 241. I would like to thank Perry Anderson and Beverly Silver for their comments.

[2] David Landes, *The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present*, Cambridge 1969, p. 231.

[3] S. B. Saul, *The Myth of the Great Depression, 1873–96*, London 1969.

[4] Landes, *Unbound Prometheus*, p. 240.

[5] Landes, *Unbound Prometheus*, p. 231.

waned, its finance triumphed and its services as shipper, trader, insurance broker and intermediary in the world's system of payments became more indispensable than ever.[6] But even within Britain not everybody prospered. Particularly noteworthy was the overall decline of British real wages after the mid-1890s, which reversed the rapidly rising trend of the previous half-century.[7] For the working class of the then hegemonic power, the *belle époque* was thus a time of containment after the preceding half-century of improvement in its economic condition. This no doubt gave an additional boost to the renewed euphoria of the British bourgeoisie. Soon, however, the 'rattling of arms' got out of hand, precipitating a crisis from which the British-centred world-capitalist system would never recover.

Robert Brenner's tightly argued and richly documented book, *The Boom and the Bubble: The US and the World Economy*, does not refer to world capitalism's late-nineteenth-century experience of depression, revival and crisis.[8] The central argument of the book, however, continually invites a comparison between that earlier period and what Brenner calls the 'persistent stagnation' of 1973–93, followed by the 'revival' of the US and world economies. The purpose of this article is not so much to develop such a comparison as to use the earlier experience as a foil in assessing the validity and limits of Brenner's argument. In the first part of what follows, I shall reconstruct as best I can Brenner's analysis, focusing on its most interesting and essential aspects. In the second section, I re-examine the argument critically, focusing on its weaknesses and limits. I will conclude by incorporating my critiques into a revised version of Brenner's argument.

I. THE ECONOMICS OF GLOBAL TURBULENCE

Brenner's objective in *The Boom and the Bubble*, as in his earlier 'Economics of Global Turbulence', is to provide evidence in support of

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[6] Eric Hobsbawm, *Industry and Empire: An Economic History of Britain since 1750*, London 1968, p. 125.

[7] Saul, *Myth*, pp. 28–34; Michael Barratt Brown, *The Economics of Imperialism*, Harmondsworth 1974, table 14.

[8] Verso: London and New York 2002; hereafter BB. This article will also deal with themes that are developed in more detail in Brenner's earlier text, 'The Economics of Global Turbulence: A Special Report on the World Economy, 1950–98', NLR I/229, May–June 1998; hereafter GT.

three closely related propositions. The first is that the *transformation* of the long expansion of the 1950s and 1960s into the comparative stagnation of the 1970s and 1980s was inscribed in the forces that drove the expansion. The second is that the *persistence* of comparative stagnation, from 1973 to 1993, was due primarily to the ways in which the business and governmental organizations of the leading capitalist states responded to the sharp and generalized fall in profitability that marked the initial transformation of expansion into stagnation. And the third contention is that the *revival* of the US economy after 1993 was not based on a resolution of the problems underlying the long downturn; indeed, it may actually have aggravated them, as witness the world-economic crisis of 1997–98 and the potentially even more serious crisis that the US and world economies have experienced since the bursting of the 'new economy' bubble.

Uneven development: from boom to crisis

As argued in detail in 'Global Turbulence', and briefly summarized at the outset of *The Boom and the Bubble*, Brenner sees both the long boom of the 1950s and 1960s and the crisis of profitability between 1965 and 1973, which brought the boom to an end, as rooted in what he calls 'uneven development'. In Brenner's definition, this is the process whereby laggards in capitalist development seek to and eventually succeed in catching up with the world-economic leaders.[9]

Focusing on Germany and Japan as the most successful among the laggards who, after the Second World War, attempted to catch up with prior developmental achievements of the US, Brenner argues that it was the capacity of these two countries to combine the high-productivity technologies, pioneered by the United States, with the large, low-wage labour supplies crowding their comparatively backward and rural small-business sectors, that pushed up their rates of profit and investment. Through the early 1960s this tendency did not negatively affect US

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9 GT, pp. 39–137, and BB, pp. 9–24. Brenner's use of the expression 'uneven development' echoes Trotsky's and Lenin's but differs radically from the more common contemporary deployment designating the tendency of capitalist development to polarize and diversify geographical space. See especially Samir Amin, *Unequal Development*, New York 1976; and Neil Smith, *Uneven Development: Nature, Capital and the Production of Space*, Oxford 1984. Throughout this article I will use the expression in the same sense as Brenner.

production and profit, because 'goods produced abroad remained for the most part unable to compete in the US market and because US producers depended to only a small extent on overseas sales'. In this crucial respect, therefore, 'uneven development was . . . still to a surprising extent separate development'.[10] Indeed, although 'uneven economic development did entail the *relative* decline of the US domestic economy . . . it was also a precondition for the continued vitality of the dominant forces within the US political economy':

> US multinational corporations and international banks, aiming to expand overseas, needed profitable outlets for their foreign direct investment. Domestically based manufacturers, needing to increase exports, required fast-growing overseas demand for their goods. An imperial US state, bent on 'containing communism' and keeping the world safe for free enterprise, sought economic success for its allies and competitors as the foundation for the political consolidation of the post-war capitalist order . . . All these forces thus depended upon the economic dynamism of Europe and Japan for the realization of their own goals.[11]

In short, up to the early 1960s, uneven development was a positive-sum game, which buttressed 'a symbiosis, if a highly conflictual and unstable one, of leader and followers, of early and later developers, and of hegemon and hegemonized'.[12] To paraphrase Landes's account of the great depression of 1873–96, it had not yet become 'economic struggle'—a zero- or even negative-sum game that would benefit some at the expense of others. In Brenner's own account of the onset of the long downturn of 1973–93, this is precisely what uneven development became between 1965 and 1973. By then Germany and Japan had not just caught up but had 'forge[d] ahead of the US leader . . . in one key industry after another—textiles, steel, automobiles, machine tools, consumer electronics'. More important, the newer, lower-cost producers based in these and other follower countries began 'invading markets hitherto dominated by producers of the leader regions, especially the US and also the UK'.[13]

This irruption of lower-priced goods into the US and world markets undermined the ability of US manufacturers 'to secure the established rate of return on their placements of capital and labour', provoking,

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[10] GT, pp. 91–2.

[11] BB, pp. 14–15.

[12] BB, p. 15.

[13] GT, p. 41, 105.

between 1965 and 1973, a decline in the rate of return on their capital stock of over 40 per cent. US manufacturers responded to this intensification of competition at home and abroad in various ways. They priced products below full cost—that is, they sought the established rate of profit only on their circulating capital; they repressed the growth of wage costs; and they updated their plant and equipment. Ultimately, however, the most decisive US weapon in the incipient competitive struggle was a drastic devaluation of the dollar relative to the Japanese yen and German mark.[14]

End of the gold–dollar standard

To some extent, the devaluation was itself the result of the deterioration in the US balance of trade that ensued from the loss of competitiveness of American vis-à-vis German and Japanese manufacturers. Nevertheless, the effects of this trade balance on the values of the three currencies were considerably amplified by government policies that destabilized—and eventually disrupted—the international gold–dollar standard regime, established at the end of the Second World War. For the German and Japanese governments responded to the inflationary pressures engendered in their domestic economies by the export-led production boom with a repression of domestic demand, which further increased both their trade surpluses and speculative demand for their currencies.[15] At the end of Johnson's administration and at the beginning of Nixon's, the US government did attempt to turn the tide of growing international monetary instability, through fiscal austerity and tight monetary policies. Soon, however,

> the political costs of sustaining a serious anti-inflationary policy—not to mention the alarming fall in the stock market . . . proved unacceptable to the Nixon Administration. Well before the defeat of the Republicans in the congressional elections of November 1970, and as high interest rates threatened to choke off the recovery, the government turned once again to fiscal stimulus and the Fed accommodated with a policy of easy credit. As Nixon was to put it several months later, 'We are all Keynesians now'.[16]

The US turn to macroeconomic expansionary policies in mid-1970 sounded the death knell for the gold–dollar standard. As interest rates

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[14] GT, pp. 93–94; BB, pp. 17–18.

[15] GT, pp. 94, 116, 119, 126–30.

[16] GT, pp. 120–21.

fell in the United States, while remaining high or increasing in Europe and Japan, short-term speculative money fled the dollar, sending the US balance-of-payments deficit (short and long term) through the roof. The half-hearted attempt of the Smithsonian Agreement of December 1971 to preserve fixed exchange rates through a 7.9 per cent devaluation of the dollar against gold, and a revaluation of the mark by 13.5 per cent and of the yen by 16.9 per cent against the dollar, failed to contain the renewed downward pressure that the Nixon administration put on the US currency through yet another round of economic stimulus. By 1973, the pressure became unbearable, resulting in a further major devaluation of the dollar and the formal abandonment of the fixed-rate system of exchange in favour of the float.[17]

The massive devaluation of the dollar against the mark (by a total of 50 per cent, between 1969 and 1973) and the yen (by a total 28.2 per cent, from 1971 to 1973)—Brenner claims—secured 'the kind of turnaround in relative costs that [the US manufacturing sector] had been unable to achieve by way of productivity growth and wage restraint'. The turnaround had a galvanizing effect on the US economy. Profitability, investment growth and labour productivity in manufacturing staged a comeback, and the US trade balance was restored to a surplus. The impact on the German and Japanese economies was just the opposite. The competitiveness of their manufacturers was sharply curtailed, making it their turn 'to forego their high rates of return if they wished to maintain their sales'. The world crisis of profitability had not been overcome. But its burden was now more evenly shared among the chief capitalist countries.[18]

In sum, uneven economic development—understood as a process of successful catching up of laggard with leading economic powers—produced both the long postwar boom and the crisis of profitability of the late 1960s and early 1970s. As long as the catching up was going on, it sustained a worldwide virtuous circle of high profits, high investments and increasing productivity. But once the laggards—or at least two of the most sizeable ones—had actually caught up with the former leader, the result was a worldwide glut of productive capacity and a consequent downward pressure on rates of profit. Soon, however, a massive, government-supported devaluation of the dollar against the mark and

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[17] GT, pp. 120–23.

[18] GT, pp. 123–24, 137.

the yen distributed the fall in profitability more evenly among the three main capitalist powers.

Over-capacity and persistent stagnation

Uneven development generated the excess capacity that provoked the general fall in the rate of profit between 1965 and 1973. But it was the failure of capitalist enterprises and governments to restore profitability to its previous levels through the elimination of excess capacity that was primarily responsible for the persistence of comparative stagnation over the two decades from 1973 to 1993. In Brenner's conceptualization, there is 'over-capacity and over-production' (two terms he always uses together) when 'there is insufficient demand to allow higher-cost firms to maintain their former rates of profit'. These firms are thus 'obliged to cease using some of their means of production and can make use of the rest only by lowering their prices and thus their profitability. There is over-capacity and over-production, *with respect to the hitherto-existing profit rate*'.[19] Either the over-supply of productive capacity is eliminated, or the rate of profit must fall, with all the dire consequences that such a fall entails in a capitalist economy, from drops in the rates of investment and productivity growth to the decline of real wages and levels of employment. Brenner's contention is that, at least up to 1993, the over-supply of productive capacity that underlay the crisis of profitability of 1965–73, far from being eliminated, if anything increased further, continually depressing profitability.

The contention is based on two lines of argument, one concerning capitalist enterprises and one concerning governments. In Brenner's conceptualization of world capitalism, there is no spontaneous market mechanism that will prevent over-capacity from developing in a large number of industries, or from becoming a chronic feature of the world economy once it has developed. Higher-cost incumbent firms have both

[19] GT, pp. 25–6; emphasis in original. As noted, Brenner invariably uses the terms 'over-capacity' and 'over-production' together, occasionally replacing them with the term 'over-accumulation' (e.g. BB, pp. 32, 159). In my view, what he is describing is a crisis of over-accumulation, of which over-capacity and over-production are distinct manifestations. As we shall see in the second part of this paper, the fact that Brenner never clarifies conceptually the difference between over-capacity and over-production creates considerable difficulties in empirically assessing their actual importance, both in absolute terms and relative to other manifestations of the underlying crisis of over-accumulation.

the means and the incentive to resist exit from overcrowded industries, while over-capacity and falling profits do not necessarily discourage new entry. Higher-cost incumbents resist exit because many of their tangible and intangible assets 'can be realized only in their established lines of production and would be lost were [the incumbents] to switch lines'. Moreover, 'the slowed growth of demand which is the unavoidable expression of the reduced growth of investment and wages that inevitably results from falling profit rates, makes it increasingly difficult to reallocate to new lines'. These firms, therefore, 'have every reason to defend their markets [by seeking the average rate of return on their circulating costs only] and to counterattack by speeding up the process of innovation, through investment in additional fixed capital'. The adoption of such a strategy, in turn, 'will tend to provoke the original cost-reducing innovators to accelerate technical change themselves, further worsening the already existing over-capacity and over-production'.[20]

At the same time, the aggravation of over-capacity does not deter new entry and a consequent further downward pressure on the rate of profit. 'On the contrary. The initial fall in profitability . . . can be expected to intensify the world-wide drive for even lower production costs, through the combination of even cheaper labour with even higher levels of techniques in still later-developing regions'.[21] The most conspicuous instance of such new entry during the long downturn were producers based in so-called Less Developed Countries—especially in East Asia, but also Mexico and Brazil—who managed to make significant inroads in world markets for manufactured goods, further intensifying the downward pressure on prices and profitability. 'There was, in short, not only too little exit, but too much entry'.[22]

This first line of argument is, for the most part, developed deductively on the basis of circumstantial evidence. There is very little business history proper in either 'Global Turbulence' or *The Boom and the Bubble*. In both texts, the bulk of the empirical evidence and historical narrative concerns the second line of argument, according to which the governments of the main capitalist powers, especially the United States, share responsibility for aggravating rather than alleviating the market tendency towards too little exit and too much entry. In this respect, Brenner's main contribution to our understanding of the long downturn is to show that the

[20] GT, pp. 32–33. [21] GT, p. 34. [22] BB, pp. 26, 31, 37.

governments in question acted not so much as regulators—though they did that too—but as active participants, even protagonists, of the system-wide competitive struggle that has set capitalists against one another since the late 1960s.

State interventions

As previously noted, in his account of the 1960s crisis of profitability Brenner already saw the US government's pursuit of a major devaluation of the dollar against the mark and yen as making a decisive contribution to shifting the burden of the crisis from American to German and Japanese manufacturers. Similarly, in his account of the long downturn, Brenner shows how the ebb and flow of currency devaluations and revaluations have been key instruments of governmental action in the inter-capitalist competitive struggle. These are marked by three major political-economic turning points: the Reagan–Thatcher monetarist 'revolution' of 1979–80, which reversed the devaluation of the US dollar of the 1970s; the Plaza Accord of 1985, which resumed the dollar devaluation; and the so-called 'reverse Plaza Accord' of 1995, which again reversed the devaluation. Let us briefly examine Brenner's account of the relationship between these turning points and the persistence of over-production and over-capacity in manufacturing, which underlies his long downturn.

By the late 1970s, the US macro-policy of Federal deficits, extreme monetary ease and 'benign neglect' with respect to the dollar's exchange rate reached the limit of its ability to sustain economic expansion and restore American manufacturing competitiveness and profitability. The policy had 'enabled the advanced capitalist economies to transcend the oil crisis recession of 1974–5 and to continue to expand during the remainder of the decade'. Nevertheless, in their effects 'Keynesian stimuli proved to be profoundly ambivalent'. While sustaining the growth of demand domestically and internationally, 'Keynesian remedies helped to perpetuate over-capacity and over-production, preventing the harsh medicine of shakeout, indeed depression, that historically had cleared the way for new upturns [in profitability]'. Reduced profitability, in turn, made firms 'unable and unwilling . . . to bring about as great an increase in supply as in the past when profit rates were higher . . . with the result that the ever-increasing public deficits of the 1970s brought about not so much increases in *output* as rises in *prices*'. The escalation in inflationary pressures was accompanied by record-breaking deficits in the US balance of payments. By 1977–78 these deficits 'precipitated a devastating run on the US currency that threatened the dollar's position as an international reserve currency, [clearing the path] for a major change of perspective'.[23]

The change came with the Reagan–Thatcher monetarist revolution of 1979–80. According to Brenner, its main objective was to revive profitability, not just or even primarily in manufacturing, but in the low-productivity service sector and, especially, in the domestic and international financial sectors, through reduced corporate taxation, increased unemployment and the elimination of capital controls. Unlike earlier, Keynesian solutions, however, monetarist remedies sought to restore profitability by administering the harsh medicine of shakeout. Unprecedentedly tight credit provoked 'a purge of that great ledge of high-cost, low-profit manufacturing firms that had been sustained by the Keynesian expansion of credit'. Although inflationary pressures were rapidly brought under control, record-high US real interest rates and the rising dollar associated with them 'threatened to precipitate a worldwide crash, starting in the US'.[24]

The crash was avoided by the 'fortuitous' return of Keynesianism—with a vengeance. Reagan's 'monumental programme of military spending

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[23] BB, pp. 33–34; emphasis in original. Brenner's account of the sequence of events that led to the monetarist revolution (or counterrevolution, as I prefer to characterize it) is the weakest link in his story of the long downturn. For one thing, he leaves us wondering why, under conditions of over-capacity and over-production, Keynesian stimuli brought about increases in prices rather than output; and, once this had occurred, why price increases did not result in higher rates of profit. More important, in *The Boom and the Bubble*, he does not tell us how and why policies 'designed to restore US manufacturing competitiveness' resulted instead in record-breaking trade deficits, despite a simultaneous escalation in protectionist measures (the Multi-Fiber Arrangement of 1973, the Trade Act of 1974 against 'unfair trade', and the tightening of so-called 'voluntary export restraints' imposed on East Asian countries). In his earlier text, he suggests three reasons for this perverse outcome: a US macroeconomic policy 'more stimulative than that of its chief rivals'; a slower growth of US labour productivity; and an apparently greater 'tolerance of rival capitalists abroad for reduced profitability' (GT, pp. 179–80). Nevertheless, these are *ad hoc* explanations which do not clearly fit his 'too-little-exit, too-much-entry' thesis and, as we shall see in the second and third parts of this article, miss the most fundamental causes of the devastating run on the dollar of 1979–80.

[24] BB, pp. 35–36.

and tax reduction for the rich . . . partly offset the ravages of monetarist tight credit and kept the economy ticking over'. Reaganite policies did, of course, bring back current-account deficits, also with a vengeance, especially 'since, from this point onward, most of the rest of the world increasingly eschewed Keynesian public deficits'. As in the 1970s, unprecedented deficits provided 'the injections of demand that were needed . . . to pull the world economy out of the recession of 1979–82'. In contrast to the 1970s, however, even larger US deficits did not now provoke a run on the dollar. On the contrary, the pull of extremely high real interest rates and a push from the Japanese Ministry of Finance resulted in a massive inflow of capital into the United States from all over the world, leading not to a depreciation but to a sharp appreciation of the US currency.[25]

Plaza Accord

The synergy of reduced inflationary pressures, high real interest rates, massive inflows of capital and a rising dollar was in keeping with the Reagan administration's objective of strengthening US finance capital. It nonetheless 'proved catastrophic for large sections of US manufacturing'. Under strong pressure from Congress and many of the country's leading corporate executives, the Reagan administration 'had little choice but to undertake an epoch-making reversal of direction'. The centrepiece of this reversal was the Plaza Accord of September 22, 1985, whereby the G-5 powers, under US pressure, agreed to take joint action to help American manufacturers by reducing the exchange rate of the dollar. The very next day, the Accord was complemented by stepped-up US denunciations of the 'unfair' trading practices of other countries. The denunciations soon escalated into threats, supported by new legislation—most notably, the Omnibus Trade and Competition Act of 1988 and the Structural Impediments Act of 1989—to close off the US market to leading (mostly East Asian) foreign competitors. This was 'a bludgeon both to limit their imports'—through 'voluntary export restraints'—'and to force the opening of their markets to US exports and foreign direct investment'.[26]

In seeking a radical devaluation of the dollar while simultaneously stepping up protectionist and 'market-opening' measures, the Reagan administration was following in the footsteps of Nixon, Ford and Carter.

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[25] BB, pp. 36, 54–55.

[26] BB, pp. 54, 59–60.

The outcome of these initiatives in the 1980s and early 1990s was nonetheless quite different to that of the 1970s.

> The Plaza Accord, and its sequels, proved to be the turning point in the US manufacturing turnaround, and a major watershed for the world economy as a whole. It set off ten years of more or less continuous, and major, devaluation of the dollar with respect to the yen and the mark, which was accompanied by a decade-long freeze on real wage growth. It thereby opened the way simultaneously for the recovery of competitiveness, along with the speed-up of export growth, of US manufacturing; a secular crisis of German and Japanese industry; and an unprecedented explosion of export-based manufacturing expansion throughout East Asia, where economies for the most part tied their currencies to the dollar and thereby secured for their manufacturing exporters a major competitive advantage vis-à-vis their Japanese rivals when the dollar fell between 1985 and 1995.[27]

By 1993, the tendencies set off by the Plaza Accord, along with the prior shakeout of the US industrial structure provoked by the unprecedentedly tight credit of the early 1980s, resulted in a revival of US profitability, investment and production.[28] To paraphrase Veblen, the remedies concocted by the government to cure the 'malady of the affections' of US business seemed, at long last, to have reached the emotional seat of the trouble and restored profits to a 'reasonable' rate. The cure, however, had some serious side effects.

In Brenner's view, the main problem was that the US revival had occurred primarily at the expense of its Japanese and Western European rivals and had done little to overcome the underlying over-capacity and over-production in manufacturing which haunted the global economy. This zero-sum nature of the revival was problematic for the United States itself. For one thing, 'the ever slower growth of world demand, and in particular the related intensification of international competition in manufacturing' limited the revival there, too. More compellingly, the United States could hardly afford 'a truly serious crisis of its leading partners and rivals', especially Japan.[29]

This contradiction surfaced starkly in the wake of the Mexican peso crisis of 1994–95. The crisis, and Washington's rescue of the Mexican economy, led to a new run on the dollar, sharply accentuating its downward trend of the preceding decade. With the yen reaching an all-time

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[27] BB, pp. 60–61. [28] BB, p. 89–93. [29] BB, p. 127.

high of ¥79:$1 in April 1995, 'Japanese producers could not even cover their variable costs and . . . the Japanese growth machine appeared to be grinding to a halt'. Still under the shock of the Mexican collapse and its disastrous impact on international financial stability (and with the upcoming 1996 presidential election looming in the background), the Clinton administration simply could not risk a Japanese version of the Mexican debacle.

> Even if a Japanese crisis could be contained, it would probably entail the large-scale liquidation of Japan's enormous holdings of US assets, especially Treasury Bonds. Such a development would chase up interest rates, frighten the money markets, and possibly [threaten] a recession at the very moment that the US economy appeared finally ready to right itself.[30]

Led by Treasury Secretary Robert Rubin, the United States entered into an arrangement with Germany and Japan to take joint action aimed at reversing the upward trend of the yen and the downward trend of the dollar. This double reversal was to be achieved by a further lowering of interest rates in Japan, relative to those of the United States, and by substantially enlarging Japanese purchases of dollar-denominated instruments such as Treasury bonds, as well as German and US purchases of dollars in currency markets. Later called the 'reverse Plaza Accord', the agreement represented 'a stunning—and entirely unexpected—about-face in the policy stance of both the US and its main allies and rivals, in much the same way as had the original Plaza Accord of 1985'.[31]

Through this volte-face, the governments of the world's largest economies switched roles in their minuet of mutual help. 'Just as Japan and Germany had had to accede to the Plaza Accord . . . to rescue US manufacturing from its crisis of the first half of the 1980s, at great cost to themselves, so the US [was now] obliged to accept a quite similar bailout of Japan's crisis-bound manufacturing sector—again with epoch-making results'.[32] For the switch transformed the ongoing US economic revival into the boom and bubble of the second half of the 1990s—the subject matter of Brenner's third main contention, to which we now turn.

Unsustainable revival

Brenner's argument on the precariousness of the economic revival of the 1990s is more difficult to pin down than his contentions concerning the

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[30] BB, p. 130–31. [31] BB, p. 131. [32] BB, p. 127.

crisis of the late 1960s and early 1970s, and the persistence of relative stagnation from 1973 to 1993. The difficulty arises from the presence of two overlapping arguments: one involving the nature of the revival, before the full dilation of the 'new economy' bubble; and the other, the impact of the bubble on the revival. Let us examine each argument in turn.

In his 'Economics of Global Turbulence', written before equity prices went through the roof at the end of the 1990s, Brenner expressed serious doubts about whether the ongoing revivals of the US and world economies constituted 'a definitive transcendence of the long downturn'. He found little evidence of the kind of system-wide recovery of profitability that would have signalled 'the overcoming of the secular problem of manufacturing over-capacity and over-production'. He did acknowledge that, in the wake of the 'reverse Plaza Accord', the United States had experienced an export-led boom which contributed substantially to setting off more robust export growth in both Europe and Japan. This tendency 'held out the possibility that the advanced capitalist economies are finally ready to follow a Smithian recipe of mutually self-reinforcing growth through specialization and the gains from trade'. He nonetheless went on to argue that the outbreak of the East Asian crisis of 1997–98 demonstrated the persistence, or even a strengthening, of the tendency towards over-production and over-capacity.[33]

Brenner also mentioned the possible emergence of another 'optimistic' scenario, whereby

> the flood of low-priced goods coming from Japan and the rest of Asia would mainly serve . . . not so much to force down US producers' prices and profits as to reduce their production costs, enhancing their competitiveness, increasing their markups and stimulating further capital accumulation. They would, by the same token, revive the local economies, making possible the greater absorption of US imports. Complementarity would, in other words, override competition, setting off a virtuous upward spiral, with the US pulling along the world economy toward a new boom.[34]

On balance, however, Brenner was sceptical about the likelihood that this alternative scenario could actually materialize. Rather, he expected world exports to grow more rapidly than world markets, perpetuating and exacerbating the longer-term trend towards over-capacity and

[33] GT, pp. 251, 255, 257–61.

[34] GT, p. 261.

over-production. In particular, he found it hard to believe that the radical devaluation of Asian currencies—especially that of the yen, by some 40 per cent since 1995—would not exercise an excruciating downward pressure on US manufacturers' prices and profits.

> In this more probable scenario, redundant production would yet again undermine the gains from trade *and competition would end up trumping complementarity*. The accelerating supply of world exports in the face of shrinking markets, far from fuelling US profits and sustaining the boom, would undercut them and thereby the recovery, in this way cutting short a system-wide secular upturn and risking a serious new turn downward of the world economy.[35]

In the two years following the publication of 'Global Turbulence', skyrocketing US equity prices and a prompt recovery of the world economy from the East Asian crisis might have seemed to invalidate this pessimistic conclusion. Although the 'new economy' bubble had already burst and much of the hype surrounding the sharp US economic upturn of the 1990s had waned before *The Boom and the Bubble* was completed, two questions remained open: first, how did the bubble fit in the scheme of things laid out in 'Global Turbulence'? And second, how did its occurrence affect Brenner's expectations for the future of the US and world economies?

In answer to the first question, Brenner has no difficulty in explaining the bubble in terms of the unintended, but certainly not unwelcome, effects of the 'reverse Plaza Accord' on the one side, and the Federal Reserve's purposeful nurturing of rising equity prices on the other. Even before 1995, the recovery of profitability in US manufacturing had translated into an increase in stock prices. The 'reverse Plaza Accord' amplified this increase for foreign investors by pushing up the value of the dollar. More important, the Accord 'unleashed a torrent of cash from Japan, East Asia and overseas more generally into US financial markets, which sharply eased interest rates and opened the way for a mighty increase in corporate borrowing to finance the purchase of shares on the stock market'. Crucial in this respect were Japanese policies. Not only did the Tokyo authorities directly pump money into US government securities and the dollar, and encourage Japanese insurance companies to follow suit by loosening regulations on overseas investment. In addition,

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[35] GT, p. 262; emphasis in original.

by slashing the official discount rate to 0.5 per cent, they enabled investors—including, above all, US investors—to borrow yen in Japan almost for free, convert them into dollars and invest them elsewhere, especially in the US stock market.[36]

This flood of US-bound foreign capital and the associated appreciation of the dollar were essential ingredients in the transformation of the pre-1995 boom in equity prices into the subsequent bubble. In Brenner's account, however, the transformation would probably not have occurred without the encouragement of the Fed. Despite his famous December 1996 warning about the stock market's 'irrational exuberance', Greenspan 'did nothing to indicate by his actions any serious worry about orbiting equity prices'. On the contrary, while steadily expanding the domestic money supply, he did not raise interest rates significantly or impose greater reserve requirements on banks; nor did he raise margin requirements on equity purchases. Worse still, as the bubble gained momentum, Greenspan went much further.

> By spring 1998, he would be explicitly rationalizing tearaway equity prices in terms of 'New Economy' productivity gains which he saw as at once keeping down inflation and giving credence to investors' expectations of the 'extraordinary growth of profits into the distant future'. He would also be expressing his warm appreciation of the stepped-up corporate investment and household consumption that flowed from the wealth effect of exploding asset values, and which strengthened the boom. . . . Equity speculators could hardly be faulted if they drew the conclusion that the Fed Chairman, despite his professed caution, found their exuberance not just not irrational, but also sensible and beneficial.[37]

The inrush of capital unleashed by the 'reverse Plaza Accord' and the Fed's easy credit regime were necessary conditions of the equity-market bubble. But 'the main active force' in its dilation were US non-financial corporations, which exploited these conditions to 'ratchet up their borrowing for the purpose of buying shares in colossal quantities—either to accomplish mergers and acquisitions or to simply re-purchase (retire) their own outstanding equities'. Entering upon 'the greatest wave of accumulation of debt in their history', US corporations pumped up share values at unprecedented rates. 'Since rising equity prices, by providing growing paper assets and thereby increased collateral, facilitated

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36 BB, pp. 139–41.

37 BB, pp. 143–6.

still further borrowing, the bubble was enabled to sustain itself, as well as to fuel the strong cyclical upturn already in progress'.[38]

Impact of the bubble

This brings us to our second question. How did the bubble affect the revival already in progress? Did it change the conditions of the upturn to render more probable the emergence of one of the 'optimistic' scenarios about which Brenner had been so sceptical in 'Global Turbulence'? Brenner's answer is that, by further increasing international over-capacity and over-production, the bubble made any such outcome even less likely. The inflation of the paper value of their assets, and the bubble-induced 'wealth effect' on consumer demand, led corporations to invest well above what was warranted by their actually realized profits. As a result, as soon as the wealth effect ceased to subsidize productivity growth, investment and consumer demand, 'firms . . . were bound to suffer truly excruciating downward pressure on their rates of return'. Indeed, writing in mid-2001, Brenner already observed the initial impact on the US and world economies of the burst bubble and 'the huge glut of productive capacity left in its wake'—most notably, a disastrous decline in the non-financial corporate profit rate, which wiped out 'virtually all of the gains in profitability achieved in the expansion of the 1990s'; and a sharp contraction in capital accumulation.[39]

In speculating on how serious the ensuing downturn would be, Brenner reaches essentially the same conclusions he had come to four years earlier in 'Global Turbulence'. He points out that the 'underlying question' is still 'whether the big recessions and crises . . . that had punctuated the 1990s, as well as the rise of new industries all across the advanced capitalist world, had finally rid international manufacturing of its tendency to redundant production and made for the . . . increase in complementarity' that was required 'to finally support a dynamic international expansion'. On balance, he again finds that no such shakeout had actually occurred. On the contrary, in his judgement the bursting of the bubble left the US economy 'weighed down by many of the same stagnationist forces that held back the Japanese economy at the end of its bubble'—that is, '*both* the downward spiral set off by the bubble-in-reverse *and* an international manufacturing sector still

[38] BB, pp. 146–7, 151–2.

[39] BB, pp. 209–17, 248–53, 261–64.

constrained by over-capacity and over-production'. Although the US may be in a position to avoid the banking crisis that has crippled Japan, it nonetheless lacks 'the enormous savings and current-account surpluses that have enabled Japan—so far—to muddle through'. It is therefore vulnerable, not just to the 'destructive reductions in demand' that would ensue from attempts to reduce the huge indebtedness of US corporations and households, but also to the possibility of withdrawals of foreign investment and consequent runs on the dollar.[40]

Under these circumstances, the United States is more likely to lead the world economy into a self-reinforcing recession than a recovery. In a sense, such a recession would constitute a 'continuation of the international crisis of 1997–98, which was temporarily postponed by the last phase of the US stock market run-up but never fully resolved'. As in that earlier crisis, 'East Asia will once again prove the world's powder keg', with massive over-capacity in Japan and elsewhere in the region exercising a strong downward pressure on profitability, locally and globally.[41] Prudently, Brenner does not commit himself to any particular scenario. But the overwhelming impression with which we are left is that the long downturn is far from over; indeed, that the worst is yet to come.

II. LONG DOWNTURN IN WORLD-HISTORICAL PERSPECTIVE

We are all in debt to Brenner for providing a systematic analysis of global turbulence which contrasts sharply with the prevailing immediacy and superficiality of existing accounts of the relationship between the United States and the world economy over the past half-century. I cannot think of a better starting point from which to unravel the complexities of that relationship. At the same time, we should not be surprised if an analysis of this scope raises more questions than it can resolve. Let us see what these questions are and in which directions we should look in order to provide some answers.

The central thesis underlying all Brenner's contentions is that the persistence of relative stagnation in the world economy at large over the last thirty years has been due to 'too little exit' and 'too much entry'—too

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[40] BB, pp. 269, 276, 277–78; emphasis in original.

[41] BB, pp. 278–82.

little and too much, that is, relative to what would be required in order to restore profitability in manufacturing to the level it had attained during the long boom of the 1950s and 1960s. As we have seen, Brenner traces this tendency to the mutually reinforcing action of the behaviour of higher-cost incumbent firms and the policies of the governments of the world's three largest economies. As a result of this combination, each of these three, and the world economy at large, were prevented 'from purging superfluous, high-cost means of production by the *standard capitalist methods* of bankruptcy, downsizing, and layoffs'.

> Higher cost/lower profit firms were thus able to long occupy economic positions that could, in the abstract, eventually have been assumed by more productive, higher profit, and more dynamic enterprises. But allowing the less productive, less profitable firms to go out of business by *letting the business cycle take its natural course* would very likely have turned the long downturn, with its relatively serious but nonetheless limited recessions, into *outright depression*. Simply put, the precondition for restoring the system to health was a debt-deflation, leading to what Marx called 'a slaughtering of capital values'. But since the only systematic way to achieve this was through depression, the only real alternative was continuing debt expansion, which contributed both to stagnation and financial instability.[42]

In his account of the long downturn, Brenner mentions two moments when the 'standard' capitalist method of structural shakeout was briefly at work: the early 1980s, under Reagan, and the mid-1990s, under Clinton. But as soon as the shakeout threatened to trigger a system-wide depression, the concerted action of the main capitalist states cut short the 'slaughter of capital values' through an expansion of public and private debt. 'But while the growth of debt . . . was helping to stave off depression, it was also slowing down that recovery of profitability which was the fundamental condition for economic revitalization'.[43]

Brenner never tells us what a 'depression'—as opposed to the 'comparative stagnation' of the long downturn—would look like. In the passages just quoted, the context suggests that it would be a far more destructive occurrence. But the difference is never made explicit, leaving us wondering, first, whether world capitalism has ever actually experienced this allegedly 'classical', 'natural', 'standard' shakeout and outright depression; second, if it did, what alteration in historical conditions has enabled contemporary capitalism to avoid the same experience; and finally, what

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[42] BB, p. 113; GT, p. 152; emphases added.

[43] GT, pp. 151–2.

are the implications of this change for the future of world capitalism and world society?

Two long downturns compared

In seeking answers to such questions, it is helpful to compare the sketch of the great depression of 1873–96, set out at the beginning of this article, with Brenner's account of the long downturn or persistent stagnation of 1973–93. Notwithstanding the widespread designation of the earlier period as a *depression*, such a comparison immediately reveals striking similarities.[44] Both were lengthy periods of reduced profitability; both were characterized by a system-wide intensification of competitive pressures on capitalist enterprise; and both were preceded by an exceptionally sustained and profitable expansion of world trade and production. Moreover, in both periods the crisis of profitability and the intensification of competition sprang from the same sources as the preceding expansion: the successful 'catching up' by laggard countries with developmental achievements previously 'monopolized' by a leading country. Once we substitute the United Kingdom for the United States as the leading country, and the US and Germany for Germany and Japan as the laggards, Brenner's interpretation of the late-twentieth-century long downturn can equally well be applied to that of the late nineteenth century.

Differences between the two long downturns were, in key respects, even more important than similarities, as we shall see. Yet, faced with a situation of intensifying competition comparable to that of the late twentieth century, world capitalism in the late nineteenth century experienced relative stagnation for more than twenty years—with plenty of local or short-lived crises and recessions, but without the kind of system-wide shakeout which, according to Brenner, is the standard capitalist method of restoring profitability. In manufacturing, in particular, there continued to be 'too much entry' and 'too little exit', as well as major technological

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[44] As noted earlier, the great depression of 1873–96 has been called a 'myth' precisely because it was characterized by a slowdown in the rate of growth rather than a collapse of production, trade and investment, as in the truly 'great depression' of the 1930s. But in the 1870s and 1880s profitability did collapse and remained depressed through the early 1890s. Brenner does not deal with the semantic ambiguity of 'depression' but it is clearly an issue that must be confronted to make sense of his frequent use of the term.

and organizational innovations which intensified rather than alleviated competitive pressures system-wide.[45] And yet, in spite of the absence of a system-wide shakeout, in the closing years of the century profitability was restored, generating the upturn of the Edwardian *belle époque*.

As argued in detail elsewhere, and further specified in a later section of this article, this upturn can be traced to a response to system-wide intensifications of competition that has characterized world capitalism from its earliest, pre-industrial beginnings right up to the present. This response consists of a system-wide tendency, centred on the leading capitalist economy of the epoch, towards the 'financialization' of processes of capital accumulation. Integral to the transformation of inter-capitalist competition from a positive- into a negative-sum game, this tendency has also acted as a key mechanism for restoring profitability, at least temporarily, in the declining but still hegemonic centres of world capitalism. From this standpoint we can detect resemblances, not just between the great depression of 1873–96 and the long downturn of 1973–93, but also between the Edwardian *belle époque* and the US economic revival and great euphoria of the 1990s.[46]

While a verdict on the eventual outcome of the 1990s revival might be premature, we know that the Edwardian *belle époque* ended in the

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[45] The long downturn of the late 19th century witnessed not just the beginning of the 'Second Industrial Revolution' but also the emergence in the US of the modern multi-unit, vertically integrated enterprise, which became the dominant model over the next century. 'Almost nonexistent at the end of the 1870s, these integrated enterprises came to dominate many of the [US's] most vital industries within less than three decades': Alfred Chandler, *The Visible Hand: The Managerial Revolution in American Business*, Cambridge, MA 1977, p. 285. It is interesting to notice that the notion of 'excessive competition', which surfaced in Japan during the crisis of profitability of the late 1960s and early 1970s, and which Brenner occasionally uses to characterize the underlying condition of the long downturn of 1973–93, first gained currency in business circles in the late 19th century downturn, especially in the US. See Terutomo Ozawa, *Multinationalism, Japanese Style: The Political Economy of Outward Dependency*, Princeton 1979, pp. 66–7; Veblen, *Theory of Business Enterprise*, p. 216; and Martin Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the Law and Politics*, Cambridge 1988, pp. 53–56.

[46] See my *The Long Twentieth Century*, London 1994; Arrighi and Beverly Silver, *Chaos and Governance in the Modern World System*, Minneapolis 1999; and Arrighi and Beverly Silver, 'Capitalism and World (Dis)Order', *Review of International Studies*, 27 (2001).

catastrophes of two world wars and the intervening global economic crash of the 1930s. This collapse is, in fact, the only occurrence of the last century and a half that corresponds to Brenner's image of a system-wide shakeout or 'outright depression'. If this is indeed what is signified by Brenner's image, we must conclude that such a shakeout appears to have been an exceptional occurrence rather than the 'standard' or 'natural' capitalist method of restoring profitability. What has recurred thus far is the tendency for uneven development, in Brenner's sense, to generate a long boom, followed by a long period of intensifying competition, reduced profitability and comparative stagnation; itself followed by an upturn of profitability, based on a financial expansion centred on the epoch's leading economy. The one and only systemic breakdown of the last 150 years has occurred in the transition from the first to the second round of uneven development.

Contrasted trajectories

The question then arises of whether a comparable breakdown is now in the making, and whether such an occurrence is as 'fundamental' a condition for the revitalization of the global economy as Brenner seems to think. In order to answer this question, we must highlight not just the similarities but also the differences between the two long downturns—which are, indeed, equally striking. Although both downturns were characterized by an escalation of competitive struggles, these unfolded along radically different paths. As previously noted, in 1873–96 the main form of inter-enterprise competition was a 'price war', resulting in 'the most drastic deflation in the memory of man'. Closely related to this tendency, the governments of the main capitalist countries subjected their currencies to the self-regulating mechanisms of a metallic standard, thereby surrendering devaluation and revaluation as a means of competitive struggle.

Increasingly, however, governments became active supporters of their domestic industries through protectionist and mercantilist practices, including the construction of overseas colonial empires—thereby undermining the unity of the world market. Although Britain continued to practice free trade unilaterally, it also remained in the vanguard of territorial expansion and empire building overseas. From the 1880s, this trajectory of intensifying interstate competition in overseas-empire building translated into the escalation of the armaments race among rising and declining capitalist powers, which eventually came to a head in the First World War. Although Britain was an active participant in this scramble, it continued to provide the world economy with capital through two major waves of overseas investment—in the 1880s and in the 1900s—which included pouring significant funds into the United States.

In all these respects, the competitive struggle during the late twentieth century's long downturn unfolded along a radically different path. During the 1970s, in particular, commodity prices generally rose rather than fell, in what was probably one of the greatest system-wide inflations in a time of peace. Although inflationary pressures were contained in the 1980s and 1990s, prices continued to rise throughout the downturn. At its outset, the last tenuous link between monetary circulation and a metallic standard—the gold–dollar exchange rate established at Bretton Woods—was severed and never again restored. As Brenner underscores, the governments of the main capitalist countries were thus in a position to use the devaluation and revaluation of currencies as a means of competitive struggle. And while they did so systematically, they nonetheless continued to promote the integration of the world market through a series of negotiations which further liberalized global trade and investment, eventually resulting in the formation of the World Trade Organization.

Far from being undermined, the unity of the world market was thus further consolidated during this period. Nor was there any sign of an armament race among rising and declining capitalist powers. On the contrary, after the final escalation of the Cold War arms build-up in the 1980s, global military capabilities became even more centralized in the hands of the United States than they had been previously. At the same time, instead of providing capital to the rest of the world economy, as Britain had throughout the nineteenth-century downturn and financial expansion, since the 1980s the United States has been absorbing capital at historically unprecedented rates, as Brenner himself notes.

In all these respects, the trajectory of the competitive struggle in the latest long downturn differs radically from the previous one. How can we account for this combination of similarities and differences between the two, and what new light does this kind of comparison throw on Brenner's analysis of global turbulence over the last thirty years? In dealing with these issues, I will focus on the three main shortcomings of Brenner's argument. The first concerns labour–capital relations; the second, so-called North–South relations; and the third, inter-capitalist competition itself. Let me deal with each in turn.

Outflanking labour resistance

In 'Global Turbulence' and, to a lesser extent, *The Boom and the Bubble*, Brenner presents his account of the long downturn as a critique of what he calls 'supply-side' theories of capitalist crises. Advanced in various forms by Left and Right alike, these contend that, by the 1960s, labour had acquired a leverage in the wealthier capitalist countries sufficient to squeeze profits and thereby undermine the mechanisms of capitalist accumulation. While acknowledging that labour may indeed be in such a position locally and temporarily, Brenner finds it inconceivable that it can wield the power necessary to provoke a long-term, system-wide downturn.

> Labour cannot, as a rule, bring about a temporally extended, systemic downturn because, as a rule, what might be called the potential sphere of investment for capital in any line of production generally extends beyond the labour market that is affected by unions and/or political parties or is regulated by norms, values, and institutions supported by the state. So firms can generally circumvent and thereby undermine the institutionalized strength of workers at any given point by investing where workers lack the capacity to resist. Indeed, they must do so, or they will find themselves outflanked and competitively defeated by other capitalists who will.[47]

It follows that, as Brenner puts it, 'vertical' pressure on capital, from below—that is, from labour—could not and did not bring about the spatially generalized and temporally extended squeeze on profits that underlies the long downturn. Only 'horizontal' pressure from inter-capitalist competition could do so.[48]

This hypothesis is based on the assumption that there is in fact 'cheaper labour that can be combined with means of production embodying something like the current level of technology without loss of efficiency (that is, at lower unit cost)'. According to Brenner, this assumption

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[47] GT, p. 20. Elsewhere Brenner mentions immigration—'unless . . . restrained by political means'—as another mechanism through which workers' power can be undermined (GT, p. 18). His overwhelming emphasis, however, is on the mobility of capital.

[48] GT, p. 23.

is justified for two reasons. First, 'labour forces in regions with long histories of economic development tend to receive wages that are substantially higher than can be explained simply by reference to their relative level of productiveness'; and second, 'over similarly extended time periods, technical change tends to reduce the skill required to produce any given array of products, with the result that the labour force that can make those products without loss of efficiency is continually enlarged, and the wage required to pay it correspondingly reduced'.[49]

In short, for historical reasons which Brenner does not explore, labour forces in 'advanced' capitalist countries have secured rewards for effort far higher than warranted by their productivity. This in itself makes them vulnerable to the competition of labour forces that—for equally unexplored historical reasons—work for wages lower than their actual or potential productivity might warrant. At the same time, technical change continually enlarges this global pool of underpaid workers, or would-be workers, who can be mobilized to outflank the pressure on profitability coming from overpaid labour. The only pressure on profitability that capitalists cannot outflank is that which comes from the competition of other capitalists.

There are two main problems with this argument. Firstly, it would appear to be logically inconsistent since it claims that, in the past, workers in the 'advanced' capitalist countries had been able to gain greater rewards than warranted by their productivity, in contradiction to the theoretical claim that any attempt to do so would price them out of the world market. In addition, the argument overestimates the ease with which, in the present no less than in the past, cheaper labour supplies can be mobilized to outflank more expensive ones. Let us clarify these problems by looking once again at the historical record.

Horizontal vs vertical?

An analysis of the long downturn of 1873–96 provides strong evidence both for and against Brenner's thesis on the predominance of horizontal (inter-capitalist) over vertical (labour-capital) relations, in bringing about a long-term and generalized squeeze on profits. In support of Brenner's argument, it could be pointed out that intense labour–capital

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49 GT, p. 18.

conflicts—either in the form of sustained strike activity, as in Britain and the United States, or in the form of working-class party formation, as in Germany and elsewhere—*followed* rather than preceded the onset of the long downturn in profitability. There can be little doubt that intense inter-capitalist competition, in the form of a relentless price war, was the main, and prior, driving force for the substantial increase in real wages that occurred during the long downturn, especially in Britain. It is also plausible to assume that rising real wages at home were at least in part responsible for the explosive growth of British overseas investment in the 1880s. Brenner's argument for the late twentieth century thus fits key features of the late-nineteenth-century experience. The fit, however, is far from perfect.

Although inter-capitalist competition was undoubtedly the primary force squeezing profitability and pushing up real wages through drastic price deflation, did not workers' resistance in the form of increasing strike activity and class-based organization contribute in a major way to that outcome, by preventing nominal wages from decreasing as rapidly as prices? And did not this resistance itself affect the trajectory of inter-capitalist competition by strengthening the tendency, not just towards the export of capital from Britain and the import of labour to the United States, but also towards the 'politicization' of that competition, through a revival of neo-mercantilist practices and overseas empire-building on an unprecedented scale? Whatever the exact answer to these questions, Brenner's hard and fast distinction between horizontal and vertical conflicts, and his *a priori* exclusion of the latter as a possible contributing factor to general and persistent downturns in profitability, are ill-suited to unravel the complex historical interaction between the two kinds of conflicts.[50]

Similarly, Brenner's contention concerning the inevitable outflanking of workers' leverage in core capitalist countries through international factor mobility ignores key aspects of how that mobility actually functioned during the earlier long downturn. Most of the capital exported from Britain and lesser core countries in this period did not involve a relocation of industrial production but the building of infrastructures in overseas territories, expanding demand for the output of British and

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[50] See Beverly Silver, *Forces of Labour: Workers' Movements and Globalization Since 1870*, Cambridge 2003, pp. 131–38, for one set of answers to these questions.

other metropolitan industries while increasing the supply of cheap raw materials and wage goods. Far from undermining the leverage of labour in the main capitalist centres, this pattern of overseas investment consolidated it. At the same time, while constant immigration may have helped contain the growing leverage of US labour, massive emigration—especially from Britain—surely helped the empowerment of European labour.[51] All things considered, the persistence and generality of the late-nineteenth-century profit squeeze appear to have been due, not just to the intensification of inter-capitalist competition, but also to the effective resistance of workers against attempts to make them bear the costs of that competition; and to the difficulties which capitalists encountered in outflanking that resistance.

In the half-century following the end of the long downturn of 1873–96, inter-capitalist competition became increasingly politicized: literal wars among rising and declining capitalist powers, rather than price wars among capitalist enterprises, came to dominate the dynamics of horizontal and vertical conflicts alike. From the late 1890s until the First World War, this transformation was instrumental in reviving profitability. Eventually, however, it resulted in the breakdown of the UK-centred world market and a new and more vicious round of inter-imperialist conflicts. For all practical purposes, in the 1930s and 1940s there was no world market to speak of. In Eric Hobsbawm's words, world capitalism had retreated 'into the igloos of its nation-state economies and their associated empires'.[52]

Labour–capital conflicts in the first half of the twentieth century developed along two distinct and increasingly divergent paths. One was the predominantly 'social' path of movements nesting at the point of production, whose main weapon of struggle was the disruptive power that mass production puts in the hands of strategically placed workers. This

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[51] As Göran Therborn notes, in the 19th century Europe in general, and Britain in particular, enjoyed practically unlimited migration outlets for its labour. 'Even the English centre of global industry was an out-migration area . . . A conservative estimate is that about 50 million Europeans emigrated out of the continent in the period 1850–1930, which corresponds to about 12 per cent of the continent's population in 1900': *European Modernity and Beyond: The Trajectory of European Societies, 1945–2000*, London 1995, p. 40.

[52] Hobsbawm, *Nations and Nationalism since 1780: Programme, Myth, Reality*, Cambridge 1991, p. 132.

originated in late-nineteenth-century Britain but assumed almost ideal-typical form in the United States. The other was the predominantly 'political' path of those nesting in the bureaucratic structures of political parties, whose main weapon was the seizure of state power and the rapid industrialization and modernization of the states that fell under their control. This originated in Continental Europe, most notably in Germany, but assumed its ideal-typical form in the USSR.[53]

The course of struggle along both paths was fundamentally shaped by the two world wars. Each of these was characterized by a similar pattern: overt labour militancy rose on the eve of both wars, declined temporarily during the conflicts themselves, and then exploded in their aftermath. The Russian Revolution took place during the First World War's wave of labour militancy, while that of the Second World War saw the spread of Communist regimes to Eastern Europe, China, North Korea and Vietnam. It was in this context of escalating labour militancy in the core, and advancing revolution in peripheral and semi-peripheral regions, that the social parameters of the US post-war world order were established.[54] Thus the form and intensity of inter-capitalist competition—that is, inter-imperialist rivalries and world wars—shaped the form and intensity of workers' struggles during this period. Nevertheless, the 'feedback' of these struggles on the trajectory of inter-capitalist conflicts was even more powerful in the first half of the twentieth century than it had been during the long downturn of 1873–96. Indeed, without such interaction, the establishment at the end of the Second World War of what Aristide Zolberg has called a 'labour friendly' international regime would be hard to explain.[55]

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[53] Arrighi and Beverly Silver, 'Labour Movements and Capital Migration: the US and Western Europe in World-Historical Perspective', in Charles Bergquist, ed., *Labour in the Capitalist World-Economy*, Beverly Hills 1984, pp. 183–216.

[54] Silver, *Forces of Labour*, pp. 125–31, 138–61.

[55] Aristide Zolberg, 'Response: Working-Class Dissolution', *International Labour and Working-Class History*, 47 (1995), pp. 28–38. To be sure, the 'labour friendly' reforms instituted with the establishment of US hegemony—e.g., macroeconomic policies favouring full employment—went hand-in-hand with fierce repression of any sectors of the labour movement that sought a deeper social transformation than the post-war social contract offered. Nevertheless, the reforms instituted under the pressure of escalating labour unrest and advancing communist revolution marked a significant transformation in comparison with the *laissez-faire* regime characteristic of the period of British world hegemony (Arrighi and Silver, *Chaos and Governance*, pp. 202–7; Silver, *Forces of Labour*, pp. 157–8).

Along with the US-sponsored reconstitution of the world market on new and more solid foundations, this regime created the institutional conditions for the system-wide revival of profitability that underlay the long boom of the 1950s and 1960s. I have no particular disagreement with Brenner's contention that 'uneven development', in his sense of the term, was a key determinant of the boom and of the long downturn that followed. But his insistence that labour–capital conflicts played no significant role in the extent, length and shape of this downturn seems even less warranted than for earlier comparable periods.

Class conflicts

Let us begin by noting that, in the late twentieth century, workers' struggles played a far more pro-active role vis-à-vis inter-capitalist competition than they did in the late nineteenth century. Whereas in the earlier period the intensification of labour–capital conflicts, and the most significant increases in real wages, *followed* the onset of the downturn, in the second half of the twentieth century they *preceded* it. In arguing his case against the role of workers' leverage in bringing about a system-wide and persistent squeeze on profits, Brenner focuses almost exclusively on the containment of workers' power in the United States in the late 1950s and early 1960s: since this occurred before the crisis of profitability, he argues, the crisis could not be due to workers' pressures.[56] Unfortunately, this narrow focus on the single 'tree' of a short-term and local episode of class conflict prevents Brenner from seeing the 'forest' of the *multinational* rising tide of conflicts over wages and working conditions which, between 1968 and 1973, culminated in what E. H. Phelps Brown aptly called 'the pay explosion'.[57] Coming in the wake of twenty years of rising real wages in the core regions of the world economy, and at a time of intensifying inter-capitalist competition worldwide, this pay explosion did not merely exercise a system-wide downward pressure on profitability, as many have emphasized.[58] More

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[56] GT, pp. 52–54, 58–63.

[57] E. H. Phelps Brown, 'A Non-Monetarist View of the Pay Explosion', *Three Banks Review*, no. 105 (1975), pp. 3–24.

[58] See, among others, Makoto Itoh, *The World Economic Crisis and Japanese Capitalism*, New York 1990, pp. 50–53; Philip Armstrong, Andrew Glyn and John Harrison, *Capitalism since World War II: The Making and Breakup of the Great Boom*, London 1984, pp. 269–76; and Philip Armstrong and Andrew Glyn, *Accumulation, Profits, State Spending: Data for Advanced Capitalist Countries 1952–83*, Oxford 1986.

important, it had a major and lasting impact on the subsequent trajectory of inter-capitalist competition.

This brings us to a second observation concerning differences between the two end-of-century long downturns. Although he occasionally mentions price inflation, Brenner is generally oblivious to the peculiarly inflationary character of the downturn he describes—all the more remarkable when contrasted with the strong deflation of the late nineteenth century. Brenner never questions this peculiarity; nor does he raise the closely related issue of why the 1965–73 crisis of profitability witnessed the severance of the last tenuous link between monetary circulation and a metallic standard, in sharp contrast with the tendency of the 1870s and 1880s towards the diffusion of the gold and other metallic-based regimes.

To be sure, Brenner does implicitly acknowledge that Washington's final abandonment, in 1970, of half-hearted attempts to stem the tide of speculation against the gold–dollar system was not just a ploy to shift the downward pressure on profits from American to Japanese and German manufacturers through a radical realignment of exchange rates. As he mentions in passing, 'the political costs of sustaining a serious anti-inflationary policy . . . quickly proved unacceptable to the Nixon administration'.[59] What these 'political costs' were, and whether they had anything to do with labour–capital relations, we are not told. As we shall see in the next section, in the case of the United States such costs were world-systemic as well as domestic. Nevertheless, even in the US—torn as it was by intense social conflicts over war in Vietnam and civil rights at home—the political price of subjecting monetary circulation to the discipline of a metallic standard clearly had a social component, including the risk of alienating labour from the ideologies and practices of the dominant bloc.[60]

In fact, the most compelling evidence for the role played by labour leverage in the final demise of the gold standard comes, not from the United States, but from the country that had been the staunchest advocate of a return to a pure gold-based regime in the 1960s: De Gaulle's France. French advocacy of the gold standard ended abruptly, never to be revived again, in May 1968, when De Gaulle had to grant a huge wage-hike

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[59] GT, pp. 120–21.

[60] Silver, *Forces of Labour*, pp. 161–63.

to prevent labour from siding with the rebellious students. Had monetary circulation been subject to the automatic mechanism of a metallic standard, such a wage-hike would have been impossible. Being perfectly aware of this, De Gaulle did what was necessary to restore social peace and stopped daydreaming about a return to gold.[61]

As the US and French experiences suggest, the leverage of labour during the transition from boom to relative stagnation in the late 1960s and early 1970s was not simply a reflection of inter-capitalist competition, as it largely had been at the onset of the late-nineteenth-century downturn.[62] On the contrary, it was significant enough to make its own independent contribution, not just to the squeeze of profitability that underlay the transition, but also towards launching the downturn along an inflationary rather than deflationary path. This does not mean that inter-capitalist competition was not also at work in squeezing profits, nor that workers and their social power benefited from the inflationary nature of the downturn—they clearly did not. All it means is that Brenner's model—near-absolute predominance of inter-capitalist competition over labour–capital conflicts—fits the latest long downturn even less than it did the previous one.

Limits to capital migration

A closer examination of the effects of capital mobility on labour leverage provides further evidence for such an assessment. In the 1970s, in particular, there was indeed a strong tendency for capital, including industrial capital, to 'migrate' to lower-income, lower-wage countries. Nevertheless, as Beverly Silver has documented in great detail, the relocation of industrial activities from richer to poorer countries has more often than not led to the emergence of strong, new labour movements in the lower-wage sites of investment, rather than an unambiguous

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[61] Completely forgotten today, the connexion between the May events and the abrupt end of French advocacy of the gold standard was also little noticed at the time. I nonetheless remember quite vividly from newspaper accounts how May 1968 brought about a sudden reversal of French support for the gold standard as a means of challenging US dollar supremacy.

[62] As previously noted, real wages rose throughout the great depression of 1873–96. Although by the 1880s and 1890s the increase could be attributed to workers' resistance against cuts in nominal wages, initially it was entirely due to inter-capitalist competition driving prices down more quickly than wages.

'race to the bottom'. Although corporations were initially attracted to Third World sites—Brazil, South Africa, South Korea—because they appeared to offer a cheap and docile labour force, the subsequent expansion of capital intensive, mass-production industries created new and militant working classes with significant disruptive power. This tendency was already in evidence in the late nineteenth and early twentieth centuries in textiles, the chief industry of British capitalism. But it has been far stronger in the leading industries of US capitalism, such as automobiles.[63]

Thus, capitalist attempts to outflank labour pressures on profitability through industrial relocation tended to deprive capital of the considerable benefits associated with producing close to the wealthier markets and in safer political environments, without actually providing many of the expected benefits of abundant low-waged and easy-to-discipline labour supplies. Acting in conjunction with other factors that will be discussed in the next two sections, this tendency made its own contribution to the massive redirection of transnational capital flows in the 1980s, from low- and middle-income destinations to the United States. Again, I am not denying that industrial relocation helped to undermine workers' leverage in the countries that experienced the greatest net outflow of capital. I am simply saying that, generally speaking, it tended to backfire on profitability; and, in so far as the United States was concerned, the net outflow soon turned into a huge net inflow. If labour's leverage declined in the course of the long downturn, as it certainly did, capital mobility is not a very convincing explanation.

Labour migration does not provide a very plausible explanation either. It is true that labour migration over the last thirty years has come predominantly from poor countries, to a far greater extent than in the late nineteenth century—thereby constituting a greater competitive threat for workers in the wealthier industrial centres. Nevertheless, in the late twentieth century the capacity of workers in the richer countries

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[63] Silver, *Forces of Labour*, especially chapters 2 and 3. Brenner and Silver both make use of Raymond Vernon's product-cycle model: 'International Investment and International Trade in the Product Cycle', *Quarterly Journal of Economics*, vol. 80, no. 2 (1966), pp. 190–207. Brenner (GT, p. 18) uses it to buttress on *a priori* grounds the assumptions of his own model, whereas Silver (*Forces of Labour*, pp. 77–97) uses it to show empirically the limits of industrial relocation in outflanking labour resistance.

to forestall competition from immigrant labour forces (often through adherence to racist ideologies and practices) has been far greater.[64]

In sum, Brenner's argument for the absolute predominance of inter-capitalist competition over labour–capital struggles in determining system-wide and persistent contractions in profitability misses the complex historical interaction between horizontal and vertical conflicts. Although, world historically, inter-capitalist competition has indeed been the predominant influence—provided that we include inter-capitalist wars among the most important forms of that competition—labour–capital conflicts were never merely a 'dependent variable', above all on the eve and in the early stages of the latest long downturn.[65] Not only did conflicts over wages and working conditions in core regions contribute to the initial squeeze on profitability in the crucial 1968–73 period; more importantly, they forced the ruling groups of core capitalist countries to choose an inflationary rather than a deflationary strategy of crisis management.

To put it bluntly: by the end of the long post-war boom, the leverage of labour in core regions was sufficient to make any attempt to roll it back through a serious deflation far too risky, in social and political terms. An inflationary strategy, in contrast, promised to outflank workers' power far more effectively than international factor mobility could. It was, indeed, the great stagnation-cum-inflation of the 1970s—'stagflation' as it was called at the time—and its effects on inter-capitalist competition and labour–capital relations, that effectively wore down workers' power in the core, opening the way for its collapse under the impact of the Reagan–Thatcher counterrevolution. In order to capture the full significance of this development and its impact on the subsequent trajectory of the long downturn, however, it is not enough to focus

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[64] This greater capacity is reflected in the fact that, proportionately speaking, migratory flows in the late 19th century were larger than today's, despite the technological advances in transportation since then. See David Held, Anthony McGrew, David Goldblatt and Jonathan Perraton, *Global Transformations*, Stanford, CA 1999, chapter 6. Moreover, immigrant workers were the protagonists in some of the most militant and successful labour struggles in the US in the 1990s, for example, the Justice for Janitors campaigns; see Roger Waldinger, Chris Erickson et al., 'Helots No More: A Case Study of the Justice for Janitors Campaign in Los Angeles', in Kate Bronfenbrenner et al., eds, *Organizing to Win*, Ithaca 1998, pp. 102–19.

[65] See my *Long Twentieth Century*, and Arrighi and Silver, *Chaos and Governance*.

on labour–capital relations. Even more important were North–South relations, to which we now turn.

Southern exposure

In his critique of supply-side theorists, Brenner contrasts their disposition to view the world economy as the mere sum of its national components with his own attempt to see systemic processes as having a logic of their own.

> [T]he emphasis of the supply-side theorists on institutions, policy and power has led them to frame their analyses too heavily on a country-by-country basis, in terms of national states and national economies—to view the international economy as a sort of spill-over of national ones and to see systemic economic problems as stemming from an agglomeration of local ones. In contrast, I shall take the international economy—*the capital accumulation and profitability of the system as a whole*—as a theoretical vantage point from which to analyse its crises and those of its national components.[66]

Laudable as this intent is, Brenner's analysis falls short of its promise. In *The Boom and the Bubble*, as in 'Global Turbulence', he focuses almost exclusively on three national states/economies (the United States, Japan and Germany) and their mutual relations, with occasional references to other Western European countries and the 'miracle economies' of East Asia. China appears only fleetingly towards the end of 'Global Turbulence' and in little more detail in the closing pages of *The Boom and the Bubble*. The vast majority of the world's states and the bulk of its population have, apparently, no bearing on the functioning of Brenner's world economy.

Brenner admits that concentrating on three countries 'does introduce distortions'. But without specifying what these distortions are, he goes on to justify his narrow focus on three grounds. First, in 1950, the US, German and Japanese economies taken together 'accounted for 60 per cent of the output (in terms of purchasing power parities) of the seventeen leading capitalist economies and by 1994 that figure had risen to 66 per cent'. Second, each of the three economies 'stood . . . at the hub of great regional blocs, which they effectively dynamized and dominated'. And finally, 'the interaction among these three economies was . . . one

[66] GT, p. 23; emphasis in original.

of the keys to the evolution of the advanced capitalist world throughout the postwar period'.[67]

These premises are questionable on two grounds. The combined weight of the three economies in question is indeed considerable, though somewhat less than Brenner's sources suggest.[68] Nevertheless, their combined share of value added in manufacturing—the branch of activities on which Brenner concentrates—has declined significantly in the course of the long downturn. The fall has been largely due to the rapid industrialization of many countries of the world's South—what Alice Amsden has called 'The Rise of the "Rest"'.[69] Moreover, as Amsden shows, the South's share of world manufactured exports has been growing even faster than its share of value added in manufacturing, rising from 7.5 per cent in 1975 to 23.3 per cent in 1998, in sharp contrast with the Japanese, Western European and North American shares, which were either stagnant or declining.[70] By dealing with the world's South in such a cursory way, Brenner tends to miss one of the most dynamic

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[67] GT, p. 9.

[68] Using the more inclusive data sets of the World Bank, their combined share of 'world' GNP appears to have remained virtually constant, rising insignificantly from 53.1 per cent in 1960 to 53.6 per cent in 1999 (calculated from *World Tables*, vols 1 and 2, Washington, DC 1984 and *World Development Indicators*, CD ROM, Washington, DC 2001). 'World' GNP excludes the former communist countries of the USSR and Eastern Europe and other countries for which there are no comparable data for both 1960 and 1999. However, all the available evidence suggests that the exclusion has the effect of raising the above figures by one or two percentage points at most.

[69] Alice Amsden, *The Rise of 'The Rest'*, New York 2001. In a more recent article, Amsden provides data showing that the share of manufacturing value added produced in 'developing' countries (our South) *excluding China* rose from 10.7 per cent in 1975 to 17.0 per cent in 1998: Amsden, 'Good-bye Dependency Theory, Hello Dependency Theory', *Studies in Comparative International Development*, vol. 38, no. 1, Spring 2003, Table 1. By recalculating her percentages to include China, I obtain an increase in the Southern share from 11.9 per cent in 1975 to 21.8 per cent in 1998. As shown elsewhere, this increase in the Southern share of manufacturing value added reflects a strong North–South convergence in degree of industrialization—accompanied, however, by a complete *lack* of income convergence. See Arrighi, Beverly Silver and Benjamin Brewer, 'Industrial Convergence and the Persistence of the North–South Divide', *Studies in Comparative International Development*, vol. 38, no. 1, Spring 2003; and Arrighi, Silver and Brewer, 'A Reply to Alice Amsden', *Studies in Comparative International Development*, vol. 38, no. 1, Spring 2003.

[70] Amsden, 'Good-bye Dependency Theory', Table 2.

elements of the intensification of competition to which he attributes so much importance.

World-political context

The second problem with Brenner's focus on three countries is more serious: the virtual eviction of world politics from the analysis of capitalist dynamics. There is no question that the interaction of the United States, Japan and Germany has been 'one of the keys' to the evolution of world capitalism since the Second World War; but it has certainly not been the only one, or even the most important. As Brenner implicitly recognizes in the passage quoted on page nine above, throughout the long boom US interaction with Germany and Japan was thoroughly embedded in, and dominated by, the Cold War relations between the United States, the USSR and China. The crisis of profitability that marked the transition from the long boom to the long downturn, as well as the great stagflation of the 1970s, were themselves deeply affected by the parallel crisis of American hegemony which ensued from the escalation of the Vietnam war and the eventual US defeat. As for the Reagan–Thatcher neoliberal counterrevolution, it was not just, or even primarily, a response to the unsolved crisis of profitability, but also—and especially—a response to the deepening crisis of hegemony. All along, the trajectories of inter-capitalist competition and the interaction among the world's three largest economies were shaped by the broader political context. The almost complete absence of world politics from Brenner's story produces not only distortions but indeterminateness as well.

Consider the connexion between the crisis of profitability of the late 1960s and early 1970s and the contemporaneous breakdown of the gold–dollar exchange standard. As we have seen, Brenner implicitly acknowledges that 'political costs' played a role in the abandonment of gold, but nonetheless upholds the thesis that its primary determinant was the competitive struggle between American manufacturers and their German and Japanese rivals. We have already criticized this argument for ignoring the relatively autonomous role that workers' leverage played in the crisis. Nevertheless, the most important determinant was neither inter-capitalist competition nor labour–capital relations but the direct and, especially, the indirect effects of the escalation of the Vietnam War on the US balance of payments. Although Vietnam is conspicuous for its absence in Brenner's story, these effects do creep in on a few occasions. Thus, 'stepped-up Vietnam War spending' is said to be the reason for the sudden acceleration of price inflation in the United States which, between 1965 and 1973, slowed down but did not stop the growth of real wages. This acceleration of inflation, in turn, is held responsible for the weakening of the competitive position of American manufacturers, both at home and abroad, vis-à-vis their German and Japanese rivals in the same period.[71]

These casual observations show that even Brenner is forced to acknowledge that, behind the intensification of competition between US and foreign manufacturers, and the vagaries of labour–capital conflicts in the United States and elsewhere, there lurks an eminently systemic but political variable, which his research design has ruled out of consideration. This lurking variable is the power struggle in which the US government sought to contain, through the use of force, the joint challenge of nationalism and communism in the Third World. As the escalation of the war in Vietnam failed to break the back of Vietnamese resistance, and provoked instead widespread opposition to the war in the United States itself, this struggle reached its climax in the same years as the crisis of profitability. As I have argued elsewhere, the costs of the war—including those programmes aimed at stemming the tide of domestic opposition—not only contributed to the profit squeeze, but were the most fundamental cause of the collapse of the Bretton Woods regime of fixed exchange rates and the massive devaluation of the US dollar that ensued.[72]

Nadir of US hegemony

As Brenner maintains, the dollar devaluation of 1969–73 did help the United States to foist the burden of the profitability crisis onto Germany and Japan and check the pressure of rising money wages on profits at home. But I would argue that this redistribution of the burden was largely a by-product of policies aimed primarily at freeing the US government's struggle for dominance in the Third World from monetary constraints. At least initially, the liquidation of the gold–dollar exchange standard did seem to endow the US government with an unprecedented freedom of action in tapping the resources of the rest of the world simply

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[71] GT, p. 97; BB, pp. 102, 119.
[72] *Long Twentieth Century*, pp. 300–8, 320–21.

by issuing its own currency.[73] However, this free hand could not prevent the defeat of the United States in Vietnam nor stop the precipitous decline of American prestige in its wake. Indeed, if anything, it worsened that decline by provoking a worldwide inflationary spiral which threatened to destroy the entire US credit structure and the worldwide networks of capital accumulation on which American wealth and power had become more dependent than ever before.[74]

The decline of US power and prestige reached its nadir in the late 1970s with the Iranian Revolution, a new hike in oil prices, the Soviet invasion of Afghanistan and another serious crisis of confidence in the US dollar. Brenner hardly mentions this deepening crisis of US hegemony as the context in which, between 1979 and 1982, the monetary policies of the US government changed from ultra laxity to extreme tightness. He does trace the switch to 'a devastating run on the US currency that threatened the dollar's position as an international reserve currency'. But he has no satisfactory explanation for the flight and pays no attention to the Arab fears over Afghanistan and Iran which, according to *Business Week,* were behind the surge in the price of gold to an all-time high of $875 in January 1980.[75] As in the case of the liquidation of the gold–dollar exchange standard ten years earlier, war and revolution in the South, rather than inter-capitalist competition among the world's three largest economies, were the primary driving force of the monetarist revolution of 1979–82. Fundamental change in the monetary sphere once again had major implications both for inter-capitalist and class struggles in core regions. But the strongest stimulus for the change came from the unsolved crisis of US hegemony in the Third World rather than the crisis of profitability as such.

Here too, the peculiarities of the late-twentieth-century long downturn may be usefully highlighted through a comparison with that of 1873–96. Though seldom remarked upon, differences in North–South relations between the two long downturns are even more significant than those

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[73] Riccardo Parboni, *The Dollar and its Rivals,* London 1981, pp. 47, 89–90.

[74] *Long Twentieth Century*, pp. 310–14, 317–20. As we shall see, the so-called first 'oil shock' of 1973–74 was a crucial intervening variable in the worldwide inflationary spiral that connects the crisis of US hegemony of the late 1960s and early 1970s to the devastating run on the US dollar of the late 1970s.

[75] Cited in Michael Moffitt, *The World's Money: International Banking from Bretton Woods to the Brink of Insolvency,* New York 1983, p. 178.

of labour and capital. Most importantly, the earlier downturn occurred in the midst of the last and largest wave of Northern territorial conquest and colonization of the South, whereas that of the twentieth century took place at the tail-end of the greatest wave of decolonization in world history.[76] In between there stood the great 'revolt against the west' of the first half of the twentieth century which, in Geoffrey Barraclough's view, marked the beginning of an entirely new era:

> Never before in the whole of human history had so revolutionary a reversal occurred with such rapidity. The change in the position of the peoples of Asia and Africa and in their relations with Europe was the surest sign of the advent of a new era, and when the history of the first half of the twentieth century—which, for most historians, is still dominated by European wars and European problems . . . comes to be written in a longer perspective, there is little doubt that no single theme will prove to be of greater importance than the revolt against the west.[77]

The moment for the longer perspective advocated by Barraclough has obviously not yet come. We live instead in a time when the 'triumph', the seemingly unlimited power of the West, makes the earlier Southern revolt look insignificant, if not futile. Yet the fundamental difference between North–South relations during the two long downturns remains, and neither the origins, nor the trajectory, nor the consequences of the latest can be accurately deciphered except in its light. To illustrate the point I shall focus once again on the monetary aspects of the two long downturns.

India's contribution

In the preceding section we traced the inflationary character of the latest long downturn to the social and political impossibility of subjecting labour–capital relations in core regions to the discipline of a metallic standard, as they had been during the late nineteenth century. The nature and strength of this social constraint within core regions, however, themselves depend critically on the particular political arrangements that link the core to the peripheries. Nothing illustrates this

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[76] On waves of colonization and decolonization, see Albert Bergesen and Ronald Schoenberg, 'Long Waves of Colonial Expansion and Contraction, 1415–1969', in Bergesen, ed., *Studies of the Modern World-System*, New York 1980.

[77] Geoffrey Barraclough, *An Introduction to Contemporary History*, Harmondsworth 1967, pp. 153–54.

better than the close connexion between Britain's adherence to the gold standard and its extraction of tribute from the Subcontinent. Britain's Indian empire was crucial in two main respects. First, 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'.[78] Funded entirely by the Indian taxpayer, these forces were organized in a European-style colonial army and used regularly in the endless series of wars through which Britain opened up Asia and Africa to Western trade, investment and influence.[79] They were 'the iron fist in the velvet glove of Victorian expansionism . . . the major coercive force behind the internationalization of industrial capitalism'.[80]

Second, and equally important, the infamous Home Charges and the Bank of England's control over India's foreign-exchange reserves jointly turned India into the 'pivot' of Britain's global financial and commercial supremacy. India's balance-of-payments deficit with Britain, and surplus with all other countries, 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'.[81]

In enforcing monetary discipline at home on workers and capitalists alike, Britain's ruling elite thus faced an altogether different situation to that of US leaders a century later. For one thing, the exercise of world-hegemonic functions—including the endless series of wars fought in

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[78] B. R. Tomlinson, 'India and the British Empire, 1880–1935', *The Indian Economic and Social History Review*, vol. 12, no. 4 (1975), p. 341.

[79] If we take Asia and Africa together, there were as many as 72 separate British military campaigns between 1837 and 1900: Brian Bond, ed., *Victorian Military Campaigns*, London 1967, pp. 309–11. By a different count, between 1803 and 1901 Britain fought 50 major colonial wars: Anthony Giddens, *The Nation-State and Violence*, Berkeley 1987, p. 223.

[80] David Washbrook, 'South Asia, the World System, and World Capitalism', *Journal of Asian Studies*, vol. 49, no. 3 (1990), p. 481.

[81] Marcello de Cecco, *The International Gold Standard: Money and Empire*, 2nd ed. New York 1984, pp. 62–3.

the world's South—did not involve the kind of inflationary pressures that the Vietnam War engendered in the United States. Not only were the wars financed by Indian money but, fought by Indian and other colonial troops, they did not require the kind of social expenditure the US government had to incur in order to contain domestic opposition to escalating casualties.

Costs of war aside, unlike the United States in the late twentieth century, Britain could internalize the benefits (for its metropolitan subjects) and externalize the costs (on its colonial subjects) of the ceaseless 'structural adjustments' involved in the subjection of its currency to a metallic standard. Coercive control over the surplus of India's balance of payments enabled Britain to shift the burdens of its own persistent trade deficits onto Indian taxpayers, workers and capitalists.[82] In a post-colonial world, in contrast, no such blatant coercion was available. The United States faced the stark choice of either balancing its trade and current-accounts deficit through a drastic downsizing of its national economy and expenditures abroad, or alienating a growing share of its future income to foreign lenders. The choice of an inflationary strategy of crisis management was not dictated solely by the social and political impossibility of subjecting the American national economy to a drastic downsizing, or by the relief from foreign competitive pressures that the strategy could bring to US manufacturers. It was also a more or less conscious attempt *not* to choose between the two equally unpalatable alternatives. The deepening crisis of US hegemony of the late 1970s and the devastating run on the dollar it provoked were a shocking reminder that the choice could no longer be postponed.

The monetary counterrevolution initiated in the closing year of the Carter administration and pursued with greater force under Reagan was a pragmatic response to this situation. As Brenner notes, the turnaround deepened rather than alleviated the crisis of profitability. But as he does not note, it did reverse—beyond the rosiest expectations of its perpetrators—the precipitous decline in US world power of the preceding fifteen years.[83] In order to understand this unexpected reversal, we

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[82] On Britain's persistent trade deficits see, among others, Andre Gunder Frank, 'Multilateral Merchandise Trade Imbalances and Uneven Economic Development', *Journal of European Economic History*, vol. 5, no. 2 (1978), pp. 407–38; and de Cecco, *International Gold Standard*.

[83] Arrighi, *Long Twentieth Century*, pp. 323–4.

must once again shift focus to reexamine the processes of inter-capitalist competition that are at the centre of Brenner's analysis.

Financial underpinnings of the US revival

Brenner, as we have seen, attributes the persistence of 'overproduction and overcapacity' after 1973 partly to the behaviour of higher-cost incumbent firms—which had 'every reason to defend their markets and counterattack by speeding up the process of innovation and investment in additional fixed capital'—and partly to the actions of the US, Japanese and German governments, which aggravated rather than alleviated the underlying tendency towards 'too little exit' and 'too much entry'. We also noted that, while governmental action occupies centre-stage in Brenner's historical narrative, the theoretically more crucial argument about firms is for the most part developed deductively, on the basis of circumstantial evidence.

A first problem with this central thesis is that it is almost exclusively focused on manufacturing. Brenner does not give an explicit justification for this, as he does for his focus on the American, Japanese and German economies. The theoretical and historical identification of capitalism with *industrial* capitalism appears to be for him—as for most social scientists, Marxist and non-Marxist alike—an article of faith which requires no justification. Yet the share of value added generated in manufacturing worldwide has been comparatively small, shrinking steadily from 28 per cent in 1960, to 24.5 per cent in 1980, to 20.5 per cent in 1998. Moreover, the contraction has been greater than average in Brenner's 'advanced' capitalist countries, the share for North America, Western Europe, Australasia and Japan combined having declined from 28.9 per cent in 1960, to 24.5 per cent in 1980, to 19.7 per cent in 1998.[84]

Brenner does seem to be aware of this problem but he sees it as a symptom of economic crisis rather than a reason for questioning the relevance and validity of his focus on manufacturing. Thus, in commenting on the 'huge expansion' experienced by the American non-manufacturing sector in the 1980s, he interprets it as 'a symptom of the broad economic

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[84] The percentages have been calculated from World Bank, *World Tables* (1984), and *World Development Indicators* (2001). The figures for the world include all the countries for which data are available for 1960, 1980 and 1998. Value added is GDP.

decline that accompanied the crisis of manufacturing in the US economy, which can usefully be called "de-industrialization", with all its negative connotations'.[85] At one point, however, he does feel it necessary to provide some justification for his narrow focus on manufacturing.

> It has become standard to downplay the importance of the manufacturing sector, by pointing to its shrinking share of total employment and GDP. But, during the 1990s, the US corporate manufacturing sector still accounted for 46.8 per cent of total profits accruing to the non-financial corporate sector (the corporate economy minus the corporate financial sector), and in 1999 it took 46.2 per cent of that total. The climb of pre-tax manufacturing profitability was in fact *the* source of the parallel recovery of pre-tax profitability in the private economy as a whole.[86]

Leaving aside the fact that it is not clear why profits in the corporate financial sector are not included in the comparison, this justification does not stand up to a close empirical scrutiny. As Greta Krippner has shown, on the basis of a thorough analysis of the available evidence, not only had the share of total US corporate profits accounted for by finance, insurance and real estate (FIRE) in the 1980s nearly caught up with and, in the 1990s, surpassed the share accounted for by manufacturing; more important, in the 1970s and 1980s *non-financial firms themselves* sharply increased their investment in financial assets relative to that in plant and equipment, and became increasingly dependent on financial sources of revenue and profit relative to that earned from productive activities. Particularly significant is Krippner's finding that manufacturing not only dominates but *leads* this trend towards the 'financialization' of the non-financial economy.[87]

Brenner does not provide any indicator for his 'over-capacity and overproduction' model comparable to Krippner's multiple indicators for the financialization of the non-financial economy. Nevertheless, Anwar Shaikh does provide two indicators for 'capacity utilization' in US manufacturing—one based on his own measure, and one on that of the

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85 BB, p. 79.

86 BB, pp. 68–70; emphasis in original.

87 Greta Krippner, 'What is Financialization?' Paper presented at the American Sociological Association Meeting, Chicago, 16–19 August 2002. Krippner's analysis is based on data provided by the Federal Reserve Flow of Funds Accounts; the Bureau of Economic Analysis National Income and Product Accounts; the IRS Corporation Income Tax Returns; Balance of Payments data; and the IRS Corporate Foreign Tax Credit data.

Federal Reserve Board—which we may take as imperfect *inverse* indicators of over-capacity.[88] Across the entire period 1947–95, both indicators show a great deal of fluctuation in capacity utilization but no clear long-term trend. More specifically, in line with Brenner's argument, both indicators—especially Shaikh's—suggest that over-capacity in US manufacturing decreased sharply during the closing years of the long boom and increased even more sharply during the crisis of profitability that marked the transition from the boom to the long downturn. After 1973, in contrast, both indicators continue to show considerable fluctuations but provide no evidence to support Brenner's contention that the long downturn was characterized by above-normal over-capacity. The Federal Reserve Board's figures show capacity utilization settling back to where it was in the 1950s with no trend either way, while Shaikh's show capacity utilization in the 1970s at higher levels than in the 1950s and rising further in the 1980s and 1990s—suggesting a comparatively low, and declining, level of over-capacity.

Supplemented with what can be gauged from these imperfect indicators, Krippner's unambiguous findings throw serious doubts on Brenner's *a priori* assumptions concerning the behaviour of incumbent, higher-cost manufacturers. The predominant response of these firms to the irruption in their markets of lower-cost competitors does not appear to have been a strenuous defence of their sunk capital, and a counterattack through additional investment in fixed capital that further increased over-capacity. Although this kind of response was certainly present, the predominant response was, in capitalist terms, far more rational. Confronted with heightened international competition (especially in trade-intensive sectors like manufacturing), higher-cost incumbent firms responded to falling returns by diverting a growing proportion of their incoming cash flows from investment in fixed capital and commodities to liquidity and accumulation through financial channels.

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[88] Anwar Shaikh, 'Explaining the Global Economic Crisis', *Historical Materialism*, no. 5, Winter 1999, pp. 140–41. A major problem in using these two indicators, or indeed any other indicator, to gauge Brenner's 'over-capacity' is that, as previously noted, he always uses this term together with the term 'over-production', and never tells us how to disentangle the two concepts. This conflation makes it impossible to know what would be a valid indicator for either over-capacity or over-production. But unless the use of the term overcapacity is completely redundant and has no meaning of its own, it is reasonable to suppose that *increases* in Brenner's over-capacity are reflected in *decreases* in capacity utilization and vice versa.

This is what Krippner observes empirically. But this is also what we should expect theoretically, whenever returns to capital invested in trade and production fall below a certain threshold and inter-capitalist competition becomes a zero- or negative-sum game. Under these conditions—precisely those which, according to Brenner, have characterized the long downturn—the risks and uncertainties involved in reinvesting incoming cash flows into trade and production are high, and it makes good business sense to use them to increase the liquidity of assets as a defensive or offensive weapon in the escalating competitive struggle, both within the particular industry or sphere of economic activity in which the firm had previously specialized and outside it. For liquidity enables enterprises not just to escape the 'slaughtering of capital values' which, sooner or later, ensues from the over-accumulation of capital and the intensification of competition in old and new lines of business, but also to take over at bargain prices the assets, customers and suppliers of the less prudent and 'irrationally exuberant' enterprises that continued to sink their incoming cash flows into fixed capital and commodities.[89]

Finance: the last refuge

In a sense, this competitive strategy is nothing but the continuation by other means of the logic of the product cycle that Brenner himself invokes in another context. For the leading capitalist organizations of a given epoch, this logic involves shifting resources ceaselessly, through one kind of 'innovation' or another, from market niches that have become overcrowded (and therefore less profitable) to those that are less crowded (and therefore more profitable). When escalating competition reduces the availability of relatively empty, profitable niches in the commodity markets, the leading capitalist organizations have one last refuge, to which they can retreat and shift competitive pressures onto others. This final refuge is the money market—in Schumpeter's words, 'always, as it were, the headquarters of the capitalist system, from which orders go out to its individual divisions'.[90]

In this respect, as previously noted, US capital in the late twentieth century was following a trajectory analogous to that of British capital

[89] This aspect of inter-capitalist competition has been the clearest sign of continuity among the various organizational forms that historical capitalism has assumed before and after the industrial revolution. See my *Long Twentieth Century*, pp. 220–38.
[90] Joseph Schumpeter, *The Theory of Economic Development*, New York 1961, p. 126.

a century before, which had also responded to the intensification of competition in manufacturing through financialization. As Halford Mackinder pointed out in a speech delivered to London bankers at the turn of the century, when the financialization of British capital was already at an advanced stage: the industrialization of other countries enhanced the importance of a single clearing house, which 'will always be where there is the greatest ownership of capital . . . [W]e are essentially the people who have capital, and those who have capital always share in the activity of brains and muscles of other countries'.[91] This was certainly the case during the *belle époque*, when nearly one half of Britain's assets were overseas and about 10 per cent of its national income consisted of interest on foreign investment.[92]

In spite of the far greater economic, military and political power of the United States in comparison to the British empire, sharing in the 'activity of brains and muscles' in other countries through financialization has been more arduous for US capital. To be sure, American

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[91] Quoted in Peter Hugill, *World Trade since 1431: Geography, Technology and Capitalism*, Baltimore 1993, p. 305.

[92] Alec Cairncross, *Home and Foreign Investment, 1870–1913*, Cambridge 1953, pp. 3, 23. As Peter Mathias noted, British foreign investment 'was not just "blind capital" but the "blind capital" of *rentiers* organized by financiers and businessmen very much with a view to the trade that would be flowing when the enterprise was under way'. British railway building in the US, and *a fortiori* in countries like Australia, Canada, South Africa and Argentina 'was instrumental in opening up these vast land masses and developing export sectors in primary produce . . . for Britain'. Mathias, *The First Industrial Nation: An Economic History of Britain 1700-1914*, London 1969, p. 329; see also Stanley Chapman, *Merchant Enterprise in Britain: From the Industrial Revolution to World War I*, New York 1992, pp. 233ff. The abundant liquidity that accumulated in, or passed through, British hands was a powerful instrument in the competitive struggle, not just in commodity markets but in the armament race as well. From the mid-1840s until the 1860s most technological breakthroughs in the design of warships were pioneered by France. And yet, each French breakthrough called forth naval appropriations in Britain that France could not match, so that it was 'relatively easy for the Royal Navy to catch up technically and surpass numerically each time the French changed the basis of the competition': William McNeill, *The Pursuit of Power: Technology, Armed Force, and Society since AD 1000*, Chicago 1982, pp. 227–28. There is a little-noticed resemblance between this pattern of the 19th century armament race and that between the US and USSR during the Cold War. The key technological breakthrough was the Soviet *Sputnik* in October 1957. But once the US launched their own space programme in 1961, it overtook Soviet achievements within a few years.

primacy in the formation of vertically integrated, multinational corporations has been a highly effective means of putting such sharing into operation throughout the twentieth century; and immigration, of course, has 'drained' brains and muscles from all over the world, throughout US history.[93] Unlike Britain in the nineteenth century, however, the United States was not structurally oriented to playing the role of global clearing house; its relationship to the world economy was rather that of a self-centred and largely self-sufficient continental economy.[94]

Under the conditions of the increasing fragmentation and eventual breakdown of the world market that characterized inter-capitalist struggles in the first half of the twentieth century, the scale, self-centredness and relative self-sufficiency of the US economy provided American

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[93] US corporations became multinational almost as soon as they had completed their continental integration: Stephen Hymer, 'The Multinational Corporation and the Law of Uneven Development', in Jagdish Bhagwati, ed., *Economics and World Order*, New York 1972, p. 121. By 1902 Europeans were already speaking of an 'American invasion', and by 1914 US direct investment abroad amounted to 7 per cent of US GNP—the same percentage as in 1966, when Europeans once again felt threatened by an 'American challenge'; see Mira Wilkins, *The Emergence of Multinational Enterprise*, Cambridge 1970, pp. 71, 201.

[94] This difference was underscored by a Study Group established in the early 1950s under the sponsorship of the Woodrow Wilson Foundation and the National Planning Association. In challenging the assumption 'that a sufficiently integrated world economic system could be again achieved by means essentially similar to those employed in the 19th century', it pointed out that the US—although a 'mature creditor' like 19th-century Britain—had an altogether different relationship to the world. The latter was 'fully integrated into the world economic system and in large measure making possible its successful functioning owing to [its] dependence on foreign trade, the pervasive influence of its commercial and financial institutions, and the basic consistency between its national economic policies and those required for world economic integration'. The US, in contrast, is 'only partially integrated into the world economic system, with which it is also partly competitive, and whose accustomed mode and pace of functioning it tends periodically to disturb. No network of American commercial and financial institutions exists to bind together and to manage the day-to-day operations of the world trading system': William Elliott, ed., *The Political Economy of American Foreign Policy: Its Concepts, Strategy, and Limits*, New York 1955, p. 43. As argued elsewhere, this difference is important in explaining why, even at the height of its liberal crusade of the 1980s and 1990s, the US did not adhere unilaterally to the precepts of the liberal creed, as Britain did in the late 19th and early 20th centuries. See Beverly Silver and Arrighi, 'Polanyi's "Double Movement": The *Belle Époques* of British and US Hegemony Compared', *Politics and Society*, vol. 31, no. 2, June 2003.

capital with decisive competitive advantages. US primacy in the formation of vertically integrated, multinational corporations enabled it to outflank, through direct investment, the rampant protectionism of the period. Nevertheless, the very success of the United States in promoting the reunification and expansion of the global market after the end of the Second World War diminished those advantages; and the intensification of international competition that ensued turned them, in some respects, into handicaps. An expanded and unified world market enabled enterprises based in smaller, less self-centred and self-sufficient countries to enjoy economies of scale and scope comparable to those of US firms. The lack of organic integration of the United States in the global economy, meanwhile, prevented American capital from taking full advantage of the tendency towards financialization which was gaining momentum, at home and abroad, under the impact of intensifying competition and the associated crisis of profitability.

Here lies yet another contradiction of the inflationary crisis-management strategy that the United States adopted under Nixon. As argued in the preceding sections, this had been dictated by a combination of economic, social and political considerations which, despite their diversity, had one underlying goal in common: the attempt to preserve the relative self-centredness, self-sufficiency and size of the American economy. Whatever its success in redistributing the burden of the profitability crisis from US capital to US labour and foreign competitors, the strategy ended up by deepening the crisis of American hegemony and by provoking a devastating run on the dollar which threatened to destroy US financial power in the world at large. The argument developed in this section provides us with new insights into the reasons for this deepening crisis and for the success of the monetarist counterrevolution in reversing the precipitous decline of US world power.

Hegemony and financialization

In a nutshell, the main reason why the inflationary strategy backfired is that, instead of attracting, it repelled the growing mass of liquidity, released by the financialization of processes of capital accumulation on a world scale, from the US economy and its currency. And conversely, the main reason why the monetarist counterrevolution was so stunningly successful in reversing the decline in US power is that it brought about a massive rerouting of global capital flows towards the United States and the dollar. To be sure, this rerouting transformed the United States from being the main source of world liquidity and foreign direct investment, as it had been in the 1950s and 1960s, into the world's main debtor nation and absorber of liquidity, from the 1980s up to the present.[95] As we shall see, Brenner is probably right in doubting that levels of indebtedness of this order are sustainable in the long run. Nevertheless, for twenty years now an escalating foreign debt has enabled the United States to turn the deteriorating crisis of the 1970s into a *belle époque* wholly comparable to, and in some respects far more spectacular, than Britain's Edwardian era.

It has, first of all, allowed the United States to achieve through financial means what it could not achieve by force of arms—to defeat the USSR in the Cold War and tame the rebellious South. Massive borrowing from abroad, mostly Japan, was essential to Reagan's escalation of the armament race—primarily, though not exclusively, through the Strategic Defence Initiative—well beyond what the USSR could afford. Combined with generous support to Afghan resistance against Soviet occupation, the escalation forced the Soviet Union into a double confrontation neither side of which it could win: in Afghanistan, its high-tech military apparatus found itself in the same difficulties that had led to the US defeat in Vietnam; while in the arms race, the United States could mobilize financial resources wholly beyond the Soviet reach.[96]

At the same time, the massive redirection of capital flows to the United States turned the flood of capital that Southern countries had experienced in the 1970s into the sudden 'drought' of the 1980s. First signalled by the Mexican default of 1982, this drought was probably

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[95] The extent of this rerouting can be gauged from the change in the current account of the US balance of payments. In the five-year period 1965–69 the account still had a surplus of $12 billion, which constituted almost half (46%) of the total surplus of G7 countries. In 1970–74, the surplus contracted to $4.1 billion and to 21% of the total surplus of G7 countries. In 1975–79, the surplus turned into a deficit of $7.4 billion. After that the deficit escalated to previously unimaginable levels: $146.5 billion in 1980–84; $660.6 billion in 1985–89; falling back to $324.4 billion in 1990–94 before swelling to $912.4 billion in 1995–99 (calculated from International Monetary Fund, *International Financial Statistics Yearbook*, Washington, DC, various years).

[96] See footnote 92 for a parallel with the role that superior financial resources played in determining the outcome of the mid-19th century arms race between France and Britain.

the single most important factor in shifting competitive pressures from North to South and in provoking a major bifurcation in the fortunes of Southern regions in the 1980s and 1990s. On the one hand, there were regions—most notably East Asia—that, for historical reasons, had a strong advantage in competing for a share of the expanding US demand for cheap industrial products. These areas tended to benefit from the redirection of capital flows, because the improvement in their balance of payments lessened their need to compete with the United States in world financial markets, and indeed turned some of them into major lenders to the US. Other regions—most notably, Sub-Saharan Africa and Latin America—were, for historical reasons, particularly disadvantaged in competing for a share of the North American demand. These tended to run into balance-of-payments difficulties that put them into the hopeless position of having to compete directly with the United States in world financial markets.[97] Either way, the United States benefited both economically and politically as American business and governmental agencies were best positioned to mobilize in the global competitive and power struggles for the cheap commodities and credit which Southern 'winners' eagerly supplied, as well as for the assets that Southern 'losers' had to alienate willy-nilly at bargain prices.

Finally, massive inflows of foreign capital were essential to the 'Keynesianism with a vengeance' that rescued the US and world economies from the deep recession provoked by the switch from extremely lax to very tight monetary policies. This recession, and the ideological and practical liquidation of the welfare state that accompanied it, was the true turning point in the collapse of workers' leverage in the US and other core regions. To be sure, the stagflation of the 1970s had already worn down workers' resistance against attempts to shift the burden of intensifying competition onto their shoulders. But it was only in the 1980s that, in core countries in general and the United States in particular, pressure from below on money wages subsided, and workers came to rely on governmental control of price inflation as their best chance of protecting their standards of living.

[97] For a preliminary analysis of the comparative advantages of East Asia and disadvantages of Sub-Saharan Africa in the new global environment of the 1980s and 1990s, see my 'The African Crisis: World Systemic and Regional Aspects', NLR 15, May–June 2002.

As Brenner maintains, the weakening of labour's leverage was greater in the United States than in other core regions and thereby contributed to the revival of US profitability in the 1990s. Yet although this was undoubtedly a factor in the revival, Brenner's narrow focus on inter-capitalist competition in manufacturing is again misleading. For the turnaround was primarily due, not to the comparatively slower growth of US real wages, but to the overall re-orientation of the American economy to take full advantage of financialization, both at home and in the world at large. From this point of view, the 'de-industrialization' of the United States and other core regions certainly had 'negative connotations' for the workers most directly affected by it; but it had no such dire meaning for the US economy as a whole, and especially its wealthier strata. Rather, it was a necessary condition of the great revival of US wealth, power and prestige of the 1990s, when—to paraphrase Landes's characterization of the Edwardian era—in spite of rattlings of arms in the South and former East or monitory references to a coming clash of civilizations, everything seemed right again.

III. A SOCIAL AND POLITICAL ECONOMIC PERSPECTIVE

Radical as the foregoing criticisms may appear and, in some respects, actually are, they do not involve a refutation so much as a recasting of Brenner's argument within a broader social and political perspective. In the concluding part of this article, I shall make such recasting explicit by drawing from and adding to Brenner's account of the long downturn and my own critique of it. As in the first section, I shall deal successively with the origins, dynamics and prospective outcomes of the long downturn.

In underscoring the difficulties involved in attributing causal priority to any of the interacting elements that have propelled the economic expansion of East Asia in the 1970s and 1980s, Robert Wade has invited us to think 'more in terms of opening a combination lock than a padlock.'[98] What is true of East Asia is *a fortiori* true of the world-economic expansion of the 1950s and 1960s and of the long downturn that followed. Brenner's uneven development is undoubtedly an element of the combination; but it is by no means the key that unlocks the mechanisms

[98] Robert Wade, 'East Asian Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence', *World Politics*, 44 (1992), p. 312.

of capital accumulation on a world scale, from boom through crisis to relative stagnation.

Origins of the downturn

The particular form that uneven development assumed after the Second World War—as opposed to the forms that it took, let us say, in the nineteenth century, or in the first half of the twentieth—was thoroughly embedded in, and shaped by, the formation and evolution of US world hegemony in the Cold War era. US hegemony, in turn, had a peculiar social character, reflected in system-wide institutional arrangements quite different from those that underlay the nineteenth-century UK-centred world economy. It follows that the operation of uneven development in generating both the postwar boom and the subsequent long downturn can only be understood in conjunction with the formation and evolution of the particular institutional arrangements of US hegemony.

These arrangements were eminently political in origin and social in orientation. They were based on the widespread belief among US government officials that 'a new world order was the only guarantee against chaos followed by revolution' and that 'security for the world had to be based on American power exercised through international systems'.[99] Equally widespread was the belief that the lessons of the New Deal were relevant to the international sphere.

> Just as the New Deal government increasingly took active responsibility for the welfare of the nation, US foreign policy planners took increasing responsibility for the welfare of the world . . . It could not insulate itself from the world's problems. As at home, moreover, it could not neatly pick and choose among those problems, distinguishing politics from economics, security from prosperity, defence from welfare. In the lexicon of the New Deal, taking responsibility meant government intervention on a grand scale.[100]

In Franklin Roosevelt's original vision, the New Deal would be 'globalized' through the United Nations, and the USSR would be included

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[99] Franz Schurmann, *The Logic of World Power: An Inquiry into the Origins, Currents and Contradictions of World Politics*, New York 1974, pp. 44, 68.

[100] Ann-Marie Burley, 'Regulating the World: Multilateralism, International Law, and the Projection of the New Deal Regulatory State', in John Ruggie, ed., *Multilateralism Matters: The Theory and Praxis of an Institutional Form,* New York 1993, pp. 125–6, 129–32.

among the poor nations of the world to be incorporated into the evolving Pax Americana, for the benefit and security of all. In the shoddier but more realistic political project that materialized under Truman, in contrast, the containment of Soviet power became the main organizing principle of US hegemony, and American control over world money and military power became the primary means of that containment.[101] This more realistic model was not so much a negation of the original notion of creating a global welfare state, as its transformation into a project of a 'warfare-welfare state' on a world scale, in competition and opposition to the Soviet system of communist states.[102]

The speed and extent of the process of uneven development, to which Brenner traces both the postwar boom and the subsequent downturn, can only be understood with reference to the successes and failures of this project. The model was, indeed, highly successful in launching one of the greatest system-wide expansions in capitalist history. In its absence, world capitalism might well have gone through a long period of stagnation, if not outright depression, comparable to that which extended from the initial establishment of British hegemony at the end of the Napoleonic Wars to the take-off of the mid-nineteenth-century long boom at the end of the 1840s. Under US hegemony, in contrast, such a contraction was avoided altogether through the joint operation of both military and social Keynesianism on a world scale. Military Keynesianism—that is, massive expenditures on the rearmament of the United States and its allies and the deployment of a far-flung network of quasi-permanent military bases—was undoubtedly the most dynamic and conspicuous element of the combination. But the US-sponsored spread of social Keynesianism—that is, the governmental pursuit of full employment and high mass consumption in the West or North, and of 'development' in the South—was also an essential factor.[103]

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[101] Schurmann, *Logic of World Power*, pp. 5, 67, 77.

[102] To borrow James O'Connor's expression; see O'Connor, *The Fiscal Crisis of the State*, New York 1973.

[103] On the critical role of military Keynesianism in launching the expansion see, among others, Fred Block, *The Origins of International Economic Disorder: A Study of the United States International Monetary Policy from World War II to the Present*, Berkeley 1977, pp. 103–4; Thomas McCormick, *America's Half-Century: United States Foreign Policy in the Cold War*, Baltimore 1989, pp. 77–8; Arrighi, *Long Twentieth Century*, pp. 295–98. On the Northern and Southern variants of social Keynesianism, see Arrighi and Silver, *Chaos and Governance*, pp. 202–11; and Silver, *Forces of Labour*, pp. 149–61.

The reconstruction and upgrading of the German and Japanese industrial apparatuses—the centrepiece of Brenner's uneven development—were integral aspects of the internationalization of the US warfare-welfare state. As Bruce Cumings notes, commenting specifically on the American approach to Japanese reindustrialization, 'George Kennan's policy of containment was always limited and parsimonious, based on the idea that four or five industrial structures existed in the world: the Soviets had one and the United States had four, and things should be kept this way'. Kennan's 'idea' was translated into US government sponsorship of Japan's reindustrialization. The Korean War became '"Japan's Marshall Plan" . . . War procurement propelled Japan along its war-beating industrial path'.[104]

Far from being a spontaneous process originating from the actions of capitalist accumulators 'from below'—as it had been in the nineteenth century under British hegemony—uneven development under American hegemony was a process consciously and actively encouraged 'from above' by a globalizing US warfare-welfare state. This difference accounts not just for the speed and extent of the long postwar boom but also for the particular combination of limits and contradictions that transformed it into the relative stagnation of the 1970s and 1980s. Brenner's account of the onset of the long downturn points to one such limit and contradiction: successful catching up creates new competitors, and intensifying competition exercises a downward pressure on the profits

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[104] Bruce Cumings, 'The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences', in Frederic Deyo, ed., *The Political Economy of the New Asian Industrialism*, Ithaca 1987, p. 60. And Cumings, 'The Political Economy of the Pacific Rim', in Ravi Palat, ed., *Pacific-Asia and the Future of the World-System*, Westport, CT 1993, p. 31. See also Jerome Cohen, *Japan's Postwar Economy*, Bloomington, IN 1958, pp. 85–91; Takafusa Nakamura, *The Postwar Japanese Economy*, Tokyo 1981, p. 42; and Itoh, *World Economic Crisis*, p. 142. US promotion of the reconstruction and upgrading of the German industrial apparatus occurred through different but equally effective channels. Germany was of course among the main beneficiaries of the Marshall Plan and US military expenditure abroad. Nevertheless, the most important contribution was US sponsorship of Western European economic union. As John Foster Dulles declared in 1948, 'a healthy Europe' could not be 'divided into small compartments'. It had to be organized into a market 'big enough to justify modern methods of cheap production for mass consumption'. A reindustrialized Germany was an essential component of this new Europe (quoted in McCormick, *America's Half-Century*, pp. 79–80).

of incumbent firms. To the extent that this was an unanticipated outcome of the Cold War project, it was not just a limitation but also a contradiction of American policies. It is nonetheless more plausible to suppose that the outcome was an anticipated but unavoidable economic cost of policies whose primary objectives were not economic but social—the containment of communism and the taming of nationalism—and political: the consolidation of US hegemony.

Drawbacks of the Cold War project

The most serious contradiction of US policies lay elsewhere: that is, precisely in the difficulties involved in attaining these social and political objectives. To be sure, in the incumbent and rising centres of capital accumulation, rapid economic growth, low levels of unemployment and the actual spread of high mass consumption consolidated the hegemony of one variant or another of liberal capitalism. As previously noted, however, even in these centres the political triumph of capitalism did not lessen and, on the whole, actually strengthened the disposition of workers to seek a greater share of the social product through direct struggle or electoral mobilization. Washington's Cold War policies thus put a double squeeze on profits—a first squeeze from the intensification of inter-capitalist competition, which they promoted by creating conditions favourable to the upgrading and expansion of the Japanese and Western European productive apparatuses; and a second squeeze deriving from the social empowerment of labour, which they promoted through the pursuit of near full employment and high mass consumption throughout the Western world.

This double squeeze was bound to produce a system-wide crisis of profitability but there is no reason why, in itself, it should have produced the crisis of US hegemony which became the dominant event of the 1970s. If the problems of profitability came to be subsumed within and dominated by this broader hegemonic crisis, the reason is that in the world's South the US warfare-welfare state attained neither its social nor its political objectives. Socially, the 'Fair Deal' that Truman promised to the poor countries of the world in his 1949 inaugural address never materialized in any actual narrowing of the income gap that separated North and South. As Third World countries stepped up their industrialization efforts—the generally prescribed means to 'development'—there was indeed industrial convergence between North and South; but, as previously noted, there was no income convergence at all. Third World countries were thus bearing the costs without reaping the expected benefits of industrialization. Worse still, in 1970 Robert McNamara, then president of the World Bank, acknowledged that even high rates of GNP growth did not result in the expected improvements in the welfare of Third World nations.[105]

Partly related to this social failure, the political failure of the US warfare-welfare state was far more conspicuous. The epicentre of this was of course the war in Vietnam, where the United States confronted the practical impossibility of victory, despite escalating US casualties and the deployment of military firepower without historical precedent for a conflict of this kind. The upshot was that the United States lost much of its political credibility as global policeman, thereby emboldening throughout the Third World the nationalist and social revolutionary forces that Cold War policies were meant to contain. Along with much of the political credibility of its military apparatus, the United States also lost control of the world monetary system. As contended earlier in this article, the escalation of public expenditures to sustain the military effort in Vietnam and to overcome opposition to the war at home—through the 'Great Society' programme—strengthened inflationary pressure in the United States and the world economy at large, deepened the fiscal crisis of the US state and eventually led to the collapse of the US-centred system of fixed exchange rates.

It is, of course, impossible to know whether the Bretton Woods regime would have survived without these effects of the Vietnam War. Nor is it possible to predict what would have happened to world capitalism had uneven development been driven 'from below', as in the nineteenth century, rather than 'from above' as under the US Cold War regime. All I am saying in contrast to Brenner's account is that, historically, uneven development after the Second World War was embedded from beginning to end in Cold War rivalries, and was therefore thoroughly shaped by the successes and failures of the strategies and structures deployed by the hegemonic US warfare-welfare state. The intensification of inter-capitalist competition and the associated crisis of profitability were important as a signal that the long postwar boom had reached

[105] Robert McNamara, 'The True Dimension of the Task', *International Development Review*, vol. 1 (1970), pp. 5–6.

its limits. But they were only an element of the broader crisis of hegemony that contemporaneously signalled the limits and contradictions of US Cold War policies.

Financialization and the monetarist counterrevolution

To turn now to the dynamic of the long downturn: my critical assessment of Brenner's account implicitly suggested that the monetarist counterrevolution of 1979–82 was a far more decisive turning point in the evolution of US and world capitalism than either the Plaza Accord of 1985 or the reverse Plaza Accord of 1995, to which Brenner seems to attribute equal or even greater importance. In my view the accords of 1985 and 1995 were moments of adjustment within a process of revival of US hegemony that had begun with the switch from ultra lax to extremely tight monetary policies. Before the switch, the US inflationary management of the crises of profitability and hegemony tended to repel rather than attract the growing mass of capital that sought accumulation through financial channels. Worse still, in spite of the positive effects of the competitiveness of US manufacturers that Brenner emphasizes, they created conditions of accumulation on a world scale that benefited neither the US state nor American capital.

Crucial in this respect was the explosive growth of the Eurodollar and other extraterritorial financial markets. Curiously, Brenner hardly mentions this development, even though it originated in the same years as his transition from boom to downturn and left an indelible mark on the 1970s. Established in the 1950s to hold dollar balances of communist countries unwilling to risk depositing them in the United States, the Eurodollar or eurocurrency market grew primarily through the deposits of US multinationals and the offshore activities of New York banks. Having expanded steadily through the 1950s and early 1960s, it started growing exponentially in the mid- and late-1960s—eurocurrency assets more than quadrupling between 1967 and 1970.[106]

Hard as it is to know exactly what lay behind this explosion, it is plausible to suppose that it was triggered by the joint crisis of profitability

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[106] Eugène Versluysen, *The Political Economy of International Finance*, New York 1981, pp. 16–22; Marcello de Cecco, 'Inflation and Structural Change in the Eurodollar Market', *European University Institute Working Papers*, 23 (1982), p. 11; Andrew Walter, *World Power and World Money*, New York 1991, p. 182.

and American hegemony of those years. Although Brenner focuses on US manufacturers producing at home, we know that US corporations operating abroad had also begun to face tougher competition from their European rivals.[107] Moreover, Europe was the epicentre of the pay explosion of 1968–73. Horizontal pressure from intensifying competition and vertical pressure from labour's leverage must have given a major boost to the liquidity preference of US multinational corporations operating abroad. Since conditions for the profitable reinvestment of cash flows in production were even less favourable in the United States than in Europe, as the growing fiscal crisis of the US warfare-welfare state increased the risks of new taxes and restrictions on capital mobility, it made good business sense for American multinationals to 'park' their growing liquid assets in eurocurrency and other offshore money markets rather than repatriate them.

Be that as it may, the explosive growth of eurocurrency markets provided currency speculators—including US banks and corporations—with a huge *masse de manoeuvre* with which to bet against, and thereby undermine, the stability of the US-controlled system of fixed exchange rates. And once that system actually collapsed, the gates were open for an ever-growing mass of privately controlled liquidity to compete with the US and other state actors in the production of world money and credit. Three mutually reinforcing tendencies were at work in this particular competitive struggle.

First, the breakdown of the regime of fixed exchange rates added a new momentum to the financialization of capital, by increasing the risks and uncertainties of commercial-industrial activities. Fluctuations in exchange rates became a major determinant of variations in corporate cash-flow positions, sales, profits and assets in different countries and currencies. In hedging against these variations, or in trying to profit from them, multinationals tended to increase the mass of liquidity deployed in financial speculation in extraterritorial money markets where freedom of action was greatest and specialized services most readily available.[108]

Second, combined with the loss of credibility of the United States as global policeman, the massive devaluation of the US currency in the

[107] Alfred Chandler, *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge, MA 1990, pp. 615–16.
[108] See, among others, Susan Strange, *Casino Capitalism*, Oxford 1986, pp. 11–13.

early 1970s prompted Third World governments to adopt a more aggressive stance in negotiating the prices of their exports of industrial raw materials—oil in particular. Intensifying inter-capitalist competition and the stepping up of low- and middle-income countries' industrialization efforts had already led to significant increases in these prices before 1973. In 1973, however, the virtual acknowledgment of defeat by the US in Vietnam, followed immediately by the shattering of the myth of Israeli invincibility during the Yom Kippur War, energized OPEC into protecting its members more effectively from the depreciation of the dollar through a four-fold increase in the price of crude oil in just a few months. Coming as it did at the tail end of the pay explosion, this so-called first 'oil shock' deepened the crisis of profitability and strengthened inflationary tendencies in core capitalist countries. More important, it generated an $80 billion surplus of 'petrodollars', a good part of which was parked or invested in the eurocurrency and other offshore money markets. The mass of privately controlled liquidity that could be mobilized for financial speculation and new credit creation outside publicly controlled channels thereby received an additional powerful stimulus.[109]

Finally, the tremendous expansion in the supply of world money and credit, due to the combination of extremely lax US monetary policies and the explosive growth of privately controlled liquidity in offshore money markets, was not matched by demand conditions capable of ensuring the preservation, let alone the self-expansion, of money capital. To be sure, there was plenty of demand for liquidity, not only on the part of multinational corporations—to hedge against or speculate on exchange-rate fluctuations—but also on the part of low- and middle-income countries, to sustain their developmental efforts in an increasingly competitive and volatile environment. For the most part, however, this demand added more to inflationary pressures than it did to the expansion of solvent indebtedness.

> Formerly, countries other than the United States had to keep their balance of payments in some sort of equilibrium. They had to 'earn' the money they wished to spend abroad. Now they could borrow it. With liquidity apparently capable of infinite expansion, countries deemed credit-worthy no longer had any external check on foreign spending . . . Under such circumstances, a balance-of-payments deficit no longer provided, in itself, an automatic

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[109] Itoh, *World Economic Crisis*, pp. 53–54, 60–68, 116; de Cecco, 'Inflation and Structural Change', p. 12; Strange, *Casino Capitalism*, p. 18.

> check to domestic inflation. Countries in deficit could borrow indefinitely from the magic liquidity machine . . . Not surprisingly, world inflation continued accelerating throughout the decade, and fears of collapse in the private banking system grew increasingly vivid. More and more debts were 'rescheduled', and a number of poor countries grew flagrantly insolvent.[110]

In short, the interaction between the crisis of profitability and the crisis of hegemony, in combination with the US inflationary strategy of crisis management, resulted in a ten-year long increase in world monetary disorder, escalating inflation and a steady deterioration in the capacity of the US dollar to function as the world's means of payment, reserve currency, and unit of account. Brenner's narrow focus on profitability in manufacturing misses this broader context of the collapsing monetary foundations of the world capitalist order. What was the point of taking some of the pressure off profits in US manufacturing through lax monetary policies if, in the process, money capital—the beginning and end of capitalist accumulation—was made so abundant as to be a free good? Was not the abuse of US seigniorage privileges in fact chasing capital into alternative monetary means, thereby depriving the US state of one of its main levers of world power?

Crisis of expansion

The root of the problem of US and world capitalism in the 1970s was not low rates of profit as such. After all, the driving down of profit *rates* in the pursuit of a larger *mass* of profits has been a long established tradition of historical capitalism.[111] The real problem throughout the 1970s was that US monetary policies were trying to entice capital to keep world trade and production expanding, even though such an expansion had become the primary cause of rising costs and uncertainty for corporate capital in general, and American corporate capital in particular. Not surprisingly, only a fraction of the liquidity created by the US monetary authorities found its way into new trade and production facilities. Most of it turned into an extraterritorial money supply, which reproduced itself many times over through the mechanisms of private inter-bank money creation, and promptly re-emerged in world markets to compete with the dollars issued by the Federal Reserve.

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[110] David Calleo, *The Imperious Economy*, Cambridge, MA 1982, pp. 137–38.
[111] See, among others, Karl Marx, *Capital*, vol. III, Moscow 1962, pp. 245–6.

In the last resort, this growing competition between private and public money did not benefit the US government, because the expansion of the private supply of dollars set an increasingly large group of countries free from balance of payments constraints, and thereby undermined the seigniorage privileges of Washington. Nor did it benefit US capital, since the expansion of the public supply of dollars fed offshore money markets with more liquidity than could possibly be recycled safely and profitably. It therefore forced the US banks and other financial intermediaries that controlled these markets to compete fiercely with one another in pushing money on countries deemed credit-worthy, and indeed in lowering the standards by which this credit-worthiness was assessed.

Unfolding as it did in the context of a deepening crisis of US hegemony, this mutually destructive competition culminated in the devastating run on the dollar of 1979–80. Whatever the actual motivations and ostensible rationale of the sudden reversal in US monetary policies that followed the run, its true long-term significance—and the main reason why it eventually revived US fortunes beyond anyone's expectation—is that it brought this mutually destructive competition to an abrupt end. Not only did the US government stop feeding the system with liquidity; more importantly, it started to compete aggressively for capital worldwide—through record high interest rates, tax breaks, increasing freedom of action for capitalist producers and speculators and, as the benefits of the new policies materialized, an appreciating dollar—provoking the massive rerouting of capital flows towards the United States discussed earlier on. To put it crudely, the essence of the monetarist counter-revolution was a shift of US state action from the supply side to the demand side of the ongoing financial expansion. Through this shift, the US government stopped competing with the growing private supply of liquidity to create instead brisk demand conditions for the latter's accumulation through financial channels.

The monetarist counterrevolution was not an isolated event but an ongoing process which had to be managed. Brenner's account of inter-state cooperation and competition among the leading capitalist countries in the 1980s and 1990s is particularly useful in highlighting the swings that have characterized this management. Whenever the process threatened to get out of hand and provoke a systemic breakdown, the leading capitalist states cooperated to avert the danger by bringing relief from competitive pressures to the producers most immediately threatened with collapse—US manufacturers on the eve of the Plaza Accord of 1985; Japanese and, to a lesser extent, Western European manufacturers on the eve of the reverse Plaza Accord of 1995. But once the danger was averted, inter-state competition resumed until the threat of a new breakdown loomed on the horizon. Illuminating as it is, this account does not tell us whether this process has any limits—and if it does, what these might be. This brings us to Brenner's contention concerning the precariousness of the US economic revival of the 1990s, to which we now turn.

Possible outcomes

In general terms, I concur with Brenner's assessment that the US economic revival of the second half of the 1990s did not constitute 'a definitive transcendence of the long downturn'; and that, indeed, the worst may be yet to come. Writing in the early 1990s—before the start of the revival analysed by Brenner, but after the monetarist counter-revolution had already succeeded in transforming the crisis of the 1970s into a new *belle époque* of US and world capitalism—I contended that 'the most striking similarity [between this new *belle époque* and the Edwardian one] has been the almost complete lack of realization on the part of their beneficiaries that the sudden and unprecedented prosperity that they had come to enjoy did not rest on a resolution of the crisis of accumulation that had preceded the beautiful times'. Rather, 'the newly found prosperity rested on a shift of the crisis from one set of relations to another set of relations. It was only a question of time before the crisis would re-emerge in more troublesome forms'.[112]

There are nonetheless two main differences between Brenner's diagnosis of the crisis of profitability underlying the global turbulence of the last thirty years, and my own. One is that I interpret the crisis of profitability as an aspect of a broader crisis of hegemony. And the other is that I see the financialization of capital, rather than persistent 'over-capacity and over-production' in manufacturing, as the predominant capitalist response to the joint crisis of profitability and hegemony.

One of the advantages of this interpretation is that it enables us to establish comparisons with earlier periods also characterized by a crisis of hegemony/profitability and the financialization of capital, in an attempt

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[112] *Long Twentieth Century*, p. 324.

to identify possible prospective outcomes of the present crisis in the light of historical experience. This brings us back to the issue raised earlier of whether the present *belle époque* can be expected to end as catastrophically as the preceding one. In bringing this article to a close let me briefly point to reasons why it may and why it may not.

The main reason for anticipating a new debacle is that financial expansions have a fundamentally contradictory impact on systemic stability. In the short run—with the understanding that, in this context, a short run encompasses decades rather than years—financial expansions tend to stabilize the existing order, by enabling incumbent hegemonic groups to shift onto subordinate groups, nationally and internationally, the burdens of the intensifying competition that challenges their hegemony. In the preceding section I have sketched the process through which the US government succeeded in turning the financialization of capital from a factor of crisis for US hegemony—as it was through the 1970s—into a factor of reflation for US wealth and power. Through different mechanisms, analogous—if less spectacular—reversals can be detected not just in the course of the UK-centred financial expansion of the late nineteenth and early twentieth centuries, but even in the course of the Dutch-centred financial expansion of the mid-eighteenth century.[113]

Over time, however, financial expansions have tended to destabilize the existing order through processes that are as much social and political as they are economic. Economically, such expansions systematically divert purchasing power from demand-creating investment in commodities (including labour power) to hoarding and speculation, thereby exacerbating realization problems. Politically, they tend to be associated with the emergence of new configurations of power, which undermine the capacity of the incumbent hegemonic state to turn to its advantage the system-wide intensification of competition. And socially, the massive redistribution of rewards and the social dislocations entailed by financial expansions tend to provoke movements of resistance and rebellion among subordinate groups and strata, whose established ways of life are coming under attack.

The form that these tendencies take, and the way in which they relate to one another in space and time, have varied from financial expansion

[113] Arrighi and Silver, *Chaos and Governance*, chapter 1 and Conclusion.

to financial expansion. But some combination of the three tendencies can be detected in each of the two so-far completed hegemonic transitions of historical capitalism—from Dutch to British and from British to US hegemony. In the past transitions (although not yet in the current one), they eventually resulted in a complete and seemingly irremediable breakdown in the system's organization, which was not overcome until the system was reconstituted under a new hegemony.[114]

A new systemic breakdown?

The Crash and Great Depression of the 1930s—the only occurrence in the last 150 years that corresponds to Brenner's image of a system-wide shakeout or 'outright depression'—was an integral element of the latest breakdown. The success of the monetarist counterrevolution, in transforming the financial expansion of the 1970s into the driving force of the reflation of US wealth and power of the 1980s and 1990s, is not in itself a guarantee that an analogous systemic breakdown is not again in the making. On the contrary, the very scale and scope of the transformation are probably exacerbating realization problems worldwide to such an extent as to make an 'outright depression' more rather than less likely.[115] This is an important issue, and one to which I would like to return on some other occasion. For the time being, however, let me simply note that, once again, the economics of the situation evolves not in isolation from but in combination with the political and social dimensions of the ongoing transition to a yet unknown destination. And while the economics of the present transition is in key respects similar to that of past transitions—as witnessed by the intensification of inter-capitalist competition and associated financialization of capital—its politics and sociology are quite different.

As previously noted, in the course of the latest long downturn and *belle époque* there has been no tendency—as there was in the course of the

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[114] Arrighi and Silver, *Chaos and Governance*, chapters 1, 3 and Conclusion.

[115] In response to a critique by James Crotty, Brenner acknowledges that tight monetary policies exacerbated realization problems in 1969–70; see Crotty, 'Review of *Turbulence in the World Economy* by Robert Brenner', *Challenge*, vol. 42, no. 3, May–June 1999, pp. 108–18, and Brenner's reply, pp. 119–130. Curiously, however, Brenner hardly mentions the much more serious realization problems that have been created by the far more persistent, widespread and tight monetary policies of the 1980s and 1990s.

long downturn and *belle époque* of the late nineteenth and early twentieth centuries—towards the transformation of inter-enterprise competition into a world-scale inter-state struggle over territory, with its associated escalation of the armaments race among rising and declining capitalist powers. On the contrary, global military capabilities have become even more centralized in the hands of the United States than they already were, while rising and declining capitalist powers have continued to work towards the consolidation of the unity of the world market. It is of course impossible to tell how this might change, were the increasing realization problems to precipitate a major system-wide depression. For the time being, however, the growing segmentation of the world market that contributed decisively to the economic breakdown of the 1930s does not appear to be a factor in the present transition.

Closely related to the above, the social forces that have shaped and constrained inter-capitalist competition in the late twentieth century are significantly different from those at work in the previous transition. Although the monetarist counterrevolution has been quite successful in undermining the capacity of labour in core regions, and of Southern nations in the world at large, to obtain a larger share of the pie, this success has its own limits and contradictions. Chief among these, as Brenner himself emphasizes, is the fact that the US economic revival of the 1990s, and the continuing dependence of the world economy for its own expansion on a growing US economy, have been based on an increase in US foreign indebtedness that has no precedent in world history. It is hard to see how this situation can be reproduced for any length of time without transforming into an outright tribute, or 'protection payment', the $1 billion (and counting) that the United States needs *daily* to balance its current accounts with the rest of the world. But it is even harder to envision the kind of system-wide social and political convulsions that are necessary to make the extraction of such a tribute the foundation of a new, and for the first time in history, truly universal world empire.

Towards the end of the *belle époque* of Dutch capitalism in 1778, the periodical *De Borger* wrote: 'Each one says "it will last my time and after me, the deluge!" as our [French] neighbours' proverb has it, which we have taken over in deeds if not in words'.[116] This pretty much sums up the

[116] Quoted in Charles Boxer, *The Dutch Seaborne Empire 1600–1800*, New York 1965, p. 291.

philosophy that underlies all financial expansions and *belle époques* of historical capitalism, including our own. The main difference between then and now is the incomparably greater power wielded by the declining hegemonic state.

As David Calleo has argued, international systems break down 'not only because unbalanced and aggressive new powers seek to dominate their neighbours but also because declining powers, rather than adjusting and accommodating, try to cement their slipping pre-eminence into an exploitative hegemony'.[117] At the time of the *belle époque* of Dutch capitalism, Dutch world power was already so diminished that the country's resistance to adjustment and accommodation played virtually no role in the subsequent systemic breakdown, in comparison to the aggressive role played by the emerging empire-building national-states, first and foremost Britain and France. Today, in contrast, we have reached the other end of the spectrum. There are no credible aggressive new powers that can provoke the breakdown of the US-centred world system, but the United States has even greater capabilities than Britain did a century ago to convert its declining hegemony into an exploitative domination. If the system eventually breaks down, it will be primarily because of US resistance to adjustment and accommodation.

[117] David Calleo, *Beyond American Hegemony: The Future of the Western Alliance*, New York 1987, p. 142.