
Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and *adaptation*. If there is, as I believe, a certain unity in capitalism, from thirteenth-century Italy to the present-day West, it is here above all that

such unity must be located and observed. (Braudel 1982: 433; emphasis in the original)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

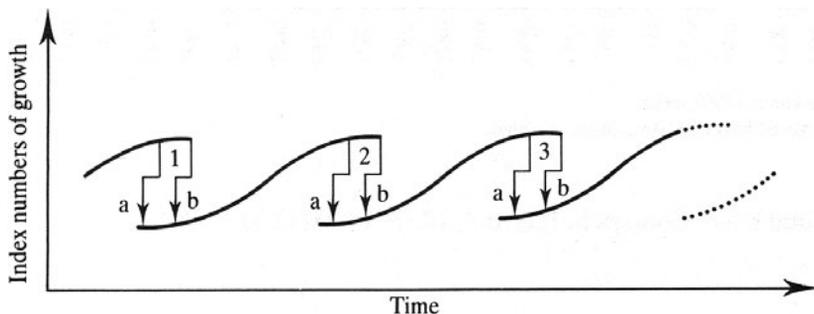
situation in which the investment of money in the expansion of trade and production no longer serves the purpose of increasing the cash flow to the capitalist stratum as effectively as pure financial deals can. In such a situation, capital invested in trade and production tends to revert to its money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

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

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

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

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



Source: Mensch (1979: 73).

1.1 Mensch's Metamorphosis Model

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

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

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

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

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

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

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

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

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

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

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

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

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

In antiquity the freedom of the cities was swept away by a bureaucratically organized world empire within which there was no longer a place for political capitalism. . . . [In] contrast with antiquity [in the modern era the cities] came under the power of competing national states in a condition of perpetual struggle for power in peace or war. This competitive struggle created the largest opportunities for modern western capitalism. *The separate states had to compete for mobile capital, which dictated to them the conditions under which*

it would assist them to power. . . . Hence it is the closed national state which afforded to capitalism its chance for development – and as long as the national state does not give place to a world empire capitalism also will endure. (Weber 1961: 247–9; emphasis added)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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