A Brief History of Capitalism

by

C. Foster Stanback

For Americans who grew up during the Cold War, the dismantling of the communist state in the Soviet Union and the Soviet Bloc countries brought a triumphant relief from the daily anxiety of living under the constant threat of mutually assured destruction. Yet at the same time, this "victory" in the Cold War brought on a new sense of apprehension about what the future might hold. Previously, one's focus could be more easily diverted from the structural deficiencies of the "Free World" due to the presence of a dangerous enemy propelled by an inferior ideology. Now, however, it is much more difficult to avoid noticing the serious flaws of our own system. All around us we see the contradictory signs of a post-war devastation mingled with those of a post-war boom. Abandoned, dilapidated factories and businesses in the inner cities resemble the destruction left from an aerial bombardment. Homeless, displaced families can be found wandering the streets of America's urban centers. Middle class factory workers now work long hours at fast-food restaurants just to eek out a living. College graduates, who at one time would have readily obtained lucrative employment, now compete with each other for low-paying clerical jobs. Enormous debt, normally the burden borne by countries that have been defeated in a war, now plagues the nation as a whole as well as the majority of individuals. Signs such as these are not the result of some sudden economic catastrophe or a radical political upheaval, but rather the effects of a recurring process in the development of capitalism as a world system.

The history of capitalism has been characterized by the rise of dominant regimes of accumulation that are inevitably superseded by competing regimes. Since the emergence of the capitalist system in the Middle Ages, four successive regimes of accumulation have risen to a position of dominance over the world economy: the Genoese, the Dutch, the British, and the Americans. Each new regime has been characterized by greater size, complexity, and power and functioned to extend the boundaries of capitalism's influence. On the other hand, the time taken by each regime to rise to dominance and then decline has been steadily decreasing. A historical analysis of these regimes of accumulation reveals a number of patterns that appear to be part of recurring cycles characteristic of the capitalist world system. If such an analysis proves to be correct, then capitalist history may well be reaching a critical turning point in which the hegemony of the American cycle of accumulation is coming to a close and a new regime will

emerge.

The capitalist system, in its modern form, arose during Age of Exploration in response to the greatly increased market for European goods. The guild-masters of the feudal system were replaced by large-scale manufacturers who produced items that they could sell in new foreign markets, such as America, East India, and China. Many of these goods were manufactured from raw materials brought in from European-controlled colonies located throughout the world. Steam-power and machinery launched the manufacturing process to new heights of production with the advent of the Industrial Age. Tremendous technological advances in transportation and communication generated an even greater efficiency in the markets as well as greater profits for European industrial giants.

During this period, productive capacity became so great that Karl Marx predicted that the problem of *overproduction* would ultimately lead to capitalism's demise. He claimed that "modern bourgeois society with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells" (Marx and Engels 46-49). In spite of the numerous boom and bust cycles that have continued to occur over the years, the most devastating for Americans being the Great Depression of the 1930s, the final crisis for capitalism has not arrived. On the contrary, the power of profit maximization to organize the productive forces of society has virtually eliminated any serious consideration of alternatives by governing entities in every part of the world.

The capitalist system is defined by its treatment of *commodities*, or the products that humans produce in order to survive. Instead of producing for themselves or their immediate associates, people produce for someone else—the capitalist. The capitalist, whether an individual, a group of individuals, or the state, provides the *means of production* for the worker. These means of production may consist of such things as technical knowledge, tools, machinery, raw materials, or a suitable working area. The things that are produced are then exchanged in the *market* for money. This money can then be used by the capitalist to buy other things, such as new equipment or more raw materials, which can then be used to produce more things to be sold for even more money. The cycle repeats itself endlessly as long as the capitalist continues to make more money from the sale of the things produced than he was required to spend on the equipment, raw materials, and labor to produce them. In other words, as long as a *profit* is made on goods produced, the capitalist will continue to produce more. As one can readily see, such a system contains no inherent incentive to increase the wages of the worker as profits are made on the goods produced, since as long as the worker is willing to work, greater profits can only be achieved by spending current profits on new equipment or more

raw materials.

The operating principle of capitalism, *profit maximization*, has two consequences. The first is competition. People will inevitably compete with each other to obtain greater profits on the goods and services available to sell. As more and more people compete to sell a limited number of items, they will inevitably search for new things that can be transformed into commodities to be bought, sold, or rented. This process, called *commodification*, is the second consequence of profit maximization. Because of commodification, things such as drinking water, which was previously considered a resource freely available to all, have been marketed and sold for a profit. Human labor has also become a commodity, with capitalists searching the world over for the cheapest workers available to manufacture their goods.

Capitalists will adopt two strategies in order to successfully compete in the marketplace against other capitalists. The first is to reinvest their profits in the business. This concentration strategy allows a particular capitalist entity to gain a greater dominance over others. A second strategy aimed at increasing market dominance is centralization. Profits from operations can be used to eliminate the competition by buying up smaller companies. The larger a company grows, the more difficult it becomes for smaller companies to compete with it. Bigger companies are able to demand lower prices from suppliers because their orders are larger. Bigger manufacturing companies will have greater economies of scale. Companies can also integrate vertically by buying up all of their suppliers. At the extreme level a company may buy up other companies at every stage of its production process, as did Rockefeller's Standard Oil Company before it was broken up by anti-trust legislation. Centralization can also occur when companies integrate horizontally by forming *mergers* with other unrelated companies.

The process of centralization has now expanded to a global level with the formation of extremely large and powerful transnational corporations. Some of these corporations have a yearly income greater than the Gross Domestic Product of many nations. They have utilized their enormous economic power to influence the global political process and create a worldwide market for their goods and services. Entire countries have been transformed into export platforms, supplying the raw materials and human labor to produce the products that these companies then sell in the global marketplace.

Profit maximization as the principle of social organization cannot occur unless two other conditions are satisfied. First of all, it requires a supportive political system. Such a system was described by Senator Bois Penrose of Pennsylvania in the following manner: "I believe in the division of labor. You send us to Congress; We pass the laws under which you make money... and out of your profits you further contribute to our campaign funds to send us back again to pass more laws

to enable you to make more money"(Araghi, *Social Change*).

A second condition necessary for capitalism to flourish is an idealogical system that legitimizes it. As wealth is inevitably concentrated into the hands of a few while more and more people suffer deprivation, a system of illusions must be created that will sustain social inequalies by misrepresenting them. In the United States, this ideology denies the existence of a class system; in India the class system is an integral part of the society's religion.

From its beginnings, capitalism has depended on political and idealogical support structures for its development. During the Age of Exploration, new markets were kept open by European warships sent by mercantilist governments. Northern Europe, which was largely Protestant, developed a stronger capitalist system than Spain and Portugal due in part to the powerful ideological support structure of the *Protestant Ethic*. Traditionally, the pursuit of profit had been viewed by society as a selfish act motivated by greed. Protestantism succeeded in reversing this view and turning profit into a moral crusade. The *Protestant Ethic* emerged from the theological ideas of John Calvin.

Calvin, one of the key leaders of the Protestant Reformation, believed that only a few people were chosen for salvation. Everyone was predestined at birth to be among the saved or the damned and there was nothing an individual could do to change his or her fate. To reduce the anxiety that they would naturally feel about their eternal destiny, believers were encouraged to look for signs in their lives which would indicate they were among the saved. One of the key signs of salvation, according to Calvinists, was prosperity. Such a belief system led to a number of consequences for the development of the capitalist spirit. First of all, capitalists could mercilessly pursue economic success while believing they were fulfilling their ethical duty. They also had access to loyal employees who would work diligently at a job in fulfillment of their life purpose, even if they were being exploited. Finally, the Protestant Ethic legitimized the new unequal class system of bourgeois and worker that was emerging to replace the old feudal order (Ritzer 149-150).

The development of the capitalist economic system can be divided into four cycles of accumulation over the past six hundred years: the Genoese cycle (15th to early 17th Century), the Dutch cycle (late 16th to late 18th Century), the British cycle (mid 18th Century to early 20th Century), and the American cycle (late 19th Century to present). Each of these cycles has overlapped as succeeding regimes rose to a position of dominance over their predecessors. Also, each cycle, while lasting more than a century, has been progressively shorter in duration. All four cycles have consisted of two distinct phases: a phase of material expansion in which money capital was used to acquire or produce an increasing amount of commodities that were then used to acquire even more money capital; and a period

of financial expansion in which money capital was redirected from investment in commodities to financial deals in order to procure greater profits (Arrighi 6).

This second phase of accumulation occurs when the profits from the investment of money capital in the expansion of trade and production are reduced due to an intensification of inter-capitalist competition (Arrighi 88). As long as trade was continuing to expand, there was plenty of room for newcomers to enter a market and find a niche. Even when a number of capitalists were operating in the same line of business, their competition only served to open up new sources of supply and new outlets for their products. Yet as capitalists accumulated more money than they could profitably invest
within their own market niches, they began to invest instead in the hostile takeover of their competitors' markets. Inter-capitalist competition became a matter of driving others out of business rather than cooperating and dividing profits. Once this point was reached, accumulated profits were redirected to more promising financial markets and the second phase of accumulation began (Arrighi 90-94). This second phase of financial expansion has proven to be the herald signaling the maturation of one cycle of accumulation and the beginning of a new one (Arrighi 87).

The switch from trade and production to financial intermediation and speculation reflects an attempt by an economic regime's capitalist class to maintain its position of dominance over world markets once the point of diminishing returns has been reached. The switch does in fact bring on a temporary period of renewed wealth and power for the regime's capitalist class, which Giovanni Arrighi has deemed a "wonderful moment" in the systemic cycle of accumulation. The "wonderful moment" is not shared by the nation as a whole, however, and only forestalls the ultimate demise of the regime as the hegemonic leader of the world capitalist system (Arrighi 215).

Until the late 14th Century, the Italian city-state of Genoa had been a chief rival of Venice in the lucrative trade of the eastern Mediterranean. Yet after a series of wars that finally ended with the Peace of Turin in 1381, Venice succeeded in ousting Genoa from these markets. Genoa had already suffered from an increasing loss of trade revenues during the earlier part of the century. The total value of merchandise entering the port of Genoa dropped from 4,000,000 Genoese pounds in 1293 to 2,000,000 pounds in 1334 and seldom rose above the latter amount during the rest of the century (Arrighi 90-91).

Once investment in trade no longer proved to be profitable, Genoese capital was used instead to finance the increasing public debts of the Italian city-states (Arrighi 109). By the 15th Century, Genoese merchant bankers had found an even more advantageous outlet for their surplus capital in the newly formed nation-state of Spain, which was opening up vast new commercial space as it strove to expand its

territories (Arrighi 121). The financial expansion of the Genoese lasted for several hundred years and enabled them to dominate European high finance. Yet even during its height a new cycle of capital accumulation had already begun with the Dutch nation, a regime that would ultimately replace the Genoese as the leading financial power of Europe.

When Spanish troops landed in the Netherlands in 1566 to enforce taxation, Dutch rebels refined their maritime skills through piracy and privateering against Spain. During the eighty-year period of struggle before the Dutch nation was recognized, the country's wealth and power expanded through control over supplies of grain and naval stores from the Baltic region (Arrighi 132). Surplus capital from the Baltic trade was utilized to transform Amsterdam into the center for storage and exchange of the most important commodities of European and world trade. In addition, Amsterdam became the key money and capital market of the European colonial powers. This was accomplished in part by establishing the first stock exchange to remain in session on a permanent basis. Eventually the Amsterdam stock exchange began to attract surplus capital from all over Europe, giving the Dutch a supreme command over liquid assets in addition to commodities.

Finally, the Dutch government chartered large joint-stock companies which held the exclusive rights to enormous overseas commercial territories. Although these were business enterprises, they were endowed with the ability to perform war-making and state-making functions on behalf of the government, and thus became important instruments of the global expansion of Dutch commercial and financial power (Arrighi 137-139). One such chartered company, the VOC (*Verenigde OosteIndische Compagnie*), became the vanguard of Dutch commercial and military power in the east Indies. The VOC became increasingly involved in military operations and territorial conquests in order to protect its monopoly of trade in this region. Yet this policy greatly inflated the protection costs of the Dutch empire as local peoples rebelled against their rule and other European mercantilist powers began to compete for control of the lucrative overseas commercial territories (Arrighi 141-142, 156-157).

In addition, an increasing percentage of the profits from the VOC's operations was diverted from the
shareholders to expanding the bureaucratic structure of the company and rewarding the top management. A similar pattern can be seen in many American corporations toward the end of the twentieth century and the early part of the twenty-first century (Arrighi 157). From about 1740 onward, the Dutch capitalist class began to withdraw from trade and specialize in supplying the enormous credit needs of the competing European colonial powers. Eventually, the Dutch were drawn into the very struggles they were profiting from, taking sides with France in a war

against the British. In spite of suffering initial defeats, Britain eventually retaliated by destroying Dutch maritime power in the fourth Anglo-Dutch war of 1781-84. The final blow to Dutch hegemony came during the Napoleonic Wars when the nation disappeared from the map of Europe and London replaced Amsterdam as the seat of world commercial and financial power (Arrighi 142-143).

England had begun its process of capital accumulation even before the Dutch nation had achieved its independence. King Henry VIII, in spite of accessing the vast local revenues of the Catholic church by breaking off relations with Rome, quickly squandered these funds in unsuccessful military campaigns. He finally resorted to obtaining loans by force and debasing the currency, plunging the nation into social unrest and political instability. As a result, England lost its last territory on the European continent, the French port of Calais. England's misfortunes were soon reversed, however, with the rise of Elizabeth I. She avoided the costly continental wars of her father and instead consolidated her power in the British Isles. She built up the royal navy and focused on expanding overseas territories. In addition, she supported piracy and privateering against Spain. Britain's superior seapower was ultimately confirmed by the defeat of the Spanish Armada in 1588.

Capital accumulated from privateering was used in the establishment of joint-stock companies, such as the East India Company, the Royal African Company, and the Hudson Bay Company, which were instrumental in advancing England's commercial power (Arrighi 184-187). Besides the advantageous geographical endowment of being located at the crossroads of Baltic, Asian, and American trade, Britain possessed large deposits of iron and coal. Thus, the nation was ideally suited to become the birthplace of the Industrial Revolution, which would allow capital accumulation to occur at an unprecedented rate. The iron industry supplied the insatiable demand for machinery, railways, and ships used to manufacture and transport British capital goods to the domestic and foreign markets. Money capital was quickly converted into commodities as the entire world economy became linked to London.

Yet this enormous expansion of production and trade inevitably reached a point of diminishing returns as competitive pressures among capitalists increased, culminating in the Great Depression of 1873-96 (Arrighi 160-163). As in the Genoese and Dutch cycles of accumulation, British capitalists began to redirect their resources from trade and production to finance in order to achieve greater returns. The latter part of the 19th Century was marked by a massive exodus of capital from Britain, much of which found its way to the rapidly rising economic regime of the United States. This period also witnessed an enormous expansion of British banking networks (Arrighi 165). The switch to financial enterprises resulted in a "wonderful moment" of prosperity from the years 1896-1914. Yet this moment was not shared by Britain's working class and it was short-lived (Arrighi 173).

Although Britain was victorious in World War I, the second world war would bring about the dismantling of the British empire and the establishment of the United States as the new global economic power.

The American cycle of accumulation has been distinguished by the innovation of large vertically integrated enterprises which encompassed both the processes of mass production as well as mass distribution, resulting in a reduction of the transaction costs of goods from primary production to final consumption. Cash flows generated from these highly efficient enterprises were reinvested in the businesses to employ hierarchies of managers to monitor and regulate markets and labor functions. The massive organizational structures created formidable barriers to entry for competitors. These enterprises were also afforded the opportunity to expand in a protected, continental-sized market (Arrighi 239-241).

The greatest challenge to the profitability of large American firms came not from competitors, but from the labor they employed. This challenge was effectively met by new organizational innovations which further strengthened their power over workers. Although various labor movements arose in the United States toward the end of the 19th century, they were normally forced underground by a government more supportive of business interests. Nevertheless, business leaders sensed the growing pressure from discontented workers and took measures to protect their position of power.

One of their key strategies was to adopt the scientific management formula devised by F.W. Taylor. This formula involved organizing the production process so that it would not depend upon the knowledge and craftsmanship of the laborer. Assembly was broken down into isolated, repetitive movements. Numerous time and motion studies were undertaken in order to extract the maximum output from each worker. Those aspects of production which had previously depended on individual problem-solving were moved from the factory floor to the planning department. The idea behind the formula was that management would have a monopoly over every aspect of the process of production. Workers would be effectively de-skilled and become easily replaceable in the event of a strike.

At the beginning of the 20th century, Henry Ford combined the principles of Taylorism with mass production techniques such as automated assembly lines in the manufacture of automobiles. Fordism soon became the industrial norm, but the large factories were highly susceptible to the problem of overproduction, resulting in lower wages for workers and massive layoffs. The social necessity for workers movements to protect them from economic downturns brought on by the capitalist system became more and more apparent. The communist revolution in Russia gave impetus to the growing popularity of similar movements in the United States. The government, however, continued to support business interests and utilized force when necessary to quell popular demonstrations for workers' rights.

All this changed with the onset of The Great Depression. So many people were without work, homes, and food that public unrest began to pose a serious threat to capitalism itself. At that point the traditional laissez-faire policy of the government was abandoned and numerous reforms were enacted to provide jobs and economic security for the worker. Ideological support for the new policies was found in the views of British economist Milton Keynes, who claimed that market forces must be moderated by government intervention in the economy if the boom-bust cycles of capitalism were to be avoided. Keynes advocated raising the wages of workers so that they would be able to buy what they produced, thereby creating a need for continued production and eliminating mass layoffs. The *Keynesian Revolution* lasted from 1930 to 1975, when the government began a return to the policies of the previous era in response to pressure from business interests. Meanwhile, capitalists found sufficient room for profit-taking in the enormous production required to support America's involvement in World War II and in the post-war economic boom.

After the war, the principles of Fordism expanded around the world. Two dominant profit-maximizing systems began vying for control of the global market. One was the United States. The other was the Soviet Union. The United States promoted a "free enterprise system" in which the means of production were privately owned. The Soviet Union promoted a "state enterprise system" in which the means of production were government-owned. The *market share* controlled by the United States included western Europe and some Third World nations. The Soviet Union controlled eastern Europe and a limited number of countries in the Third World. The basic capitalistic principle of maximizing profits was followed by both systems. In the free enterprise system profits accrued in the form of money to the individuals and stockholders who controlled the production process. In the state enterprise system profits accrued in the form of fringe benefits and material goods to the controlling elites in the government.

The strategy of combining de-skilled human labor with mass production techniques to maximize profits was utilized by both systems. Both systems were also
controlled by a group of elites who utilized the state to promote their economic interests. In the United States this state support of business interests took the form of numerous invasions by US forces into Third World nations where markets were threatened, such as Vietnam and various Latin American countries. In the Soviet Union military forces were utilized to keep their markets open in places such as Hungary, Poland, and Afghanistan.

Both the American and Soviet systems were supported by a strong ideological framework. The most salient doctrine of the American system was f*reedom*. This freedom was couched in the lore of the Revolutionary War and enshrined in such

documents as the *Declaration of Independence*, the *Constitution*, and the *Bill of Rights*. American military forces were defined for the public as the heroic defenders of this cherished freedom, both for Americans and other peoples who lived abroad. Freedom for Americans was expressed both politically and economically in the right to vote and the right to engage in individual profit-making activities, even though political decisions and the "free" market were ultimately controlled by elites. The United States continued to use the term "capitalism" and associate it with freedom of economic opportunity. In spite of the increased concentration of wealth into the hands of a diminishing proportion of the population, the existence of a class system was formally denied.

At the heart of the Soviet system lay the doctrine of *equality.* The underlying capitalist structure of the system was denied and the term *communism* was utilized to define the Soviet Union as a system which embodied the philosophy of Karl Marx. The idea of equality was couched in the lore of the Bolshevik Revolution and enshrined in such documents as the *Communist Manifesto.* The Soviet military and its latest hardware were frequently paraded through the streets of Moscow as the defenders against "Yankee Imperialism." Equality for the Soviets was expressed politically in their right to vote and economically in their right to state-provided jobs, healthcare, and schools. In reality, the equality was only a myth, since the ruling elites picked their own successors and had access to much greater material benefits than the public at large. The different idealogical systems operating in the Soviet Union and the United States were so strong that they eventually superseded the economic competition between the two countries and generated the much deeper hostility of the Cold War.

Ultimately, the Soviet system failed, as most weaker entities do in the competitive marketplace of capitalism. The Soviet Union began as an agrarian, semi-feudal society with an extremely small industrial base. Although tremendous progress was made during the 20th Century, the system was never able to catch up to the industrially superior power of the United States. Any market taken over by the Soviet Union, such as the eastern Bloc countries, had to be closed off from the outside since the inferior products produced in the Soviet Union's fledgling factories would not have been able to compete with the goods produced in the advanced factories of the United States and the West.

From 1945 until 1973 the capitalist system of the United States expanded the principles of Fordism to a global level. American corporations, having already acquired experience in growing their markets over large geographic areas through interstate commercial ventures, were in a prime position to assert their dominance in the global marketplace. The government supported business interests with policies such as the Marshall Plan, which provided U.S. government credits to the devastated nations of Europe for rebuilding with American machinery and other

goods.

Following the war, the bulk of the world's manufacturing capability, along with the capacity for technological research and development, was now based in the United States. This already considerable infrastructure was further expanded by the Cold War, enabling America's corporate giants to dedicate huge sums of money to the development and manufacture of new technologies with the assurance of continued purchases by the government. Not surprisingly, American companies were responsible for 100 of the major technological innovations between 1945 and 1960, including the transistor and integrated circuits, which made possible a number a number of profitable consumer products in addition to military hardware (Pollard 132-133).

U.S. hegemony of the global marketplace went unchallenged until the early 1970s. By that time Japan and the nations of Europe had fully recovered their former industrial might and began to compete against the United States. The new competition in the international marketplace resulted in a profitability crisis for American corporations. To bolster diminishing profits, low level assembly jobs were exported overseas where factories could take advantage of much lower labor costs.

Unions, which previously had been able to wield the threat of a strike in order to obtain concessions from management, found themselves in a rather precarious position. Instead of bargaining to obtain better wages and benefits for workers, they now had to offer wage and benefit reductions to management in an effort to persuade companies not to move their operations overseas. If corporations initiated cuts in pay or benefits, unions had no choice but to concede or face a plant shutdown. In an ironic reversal, the weapon of halting operations, once called a strike and utilized by unions to obtain concessions from management, was now called a plant shutdown and used by management to obtain concessions from the unions.

As manufacturing jobs left the country, the United States underwent a transformation from an industrial economy to a service economy. Traditional blue-collar factory jobs that paid a middle class wage and provided health insurance and retirement benefits began to be replaced by low paying jobs in service industries such as the fast-food business. To avoid paying benefits and giving raises, workers were hired on a temporary basis or only allowed to work part-time. The lower wages of the service industry often required both parents to work in order to support a family. If one wage earner became temporarily or permanently unemployed, family income was not sufficient to pay the mortgage or the rent, resulting in another addition to the growing ranks of the homeless.

Service sector wages were kept low by a continual influx of illegal immigrants who could easily replace any citizens who were unwilling to work for such meager

pay. Business owners whose profit-making activity was bound to American shores utilized institutions such as the U.S. Chamber of Commerce to fight immigration enforcement so that they could keep wages depressed. Even simple measures, such as requiring businesses to verify the legal status of new hires, have been continually blocked in Congress (Mann).

American business interests sought further relief from the growing profit squeeze by lobbying the government for tax reforms designed to lower the taxes levied on corporations and investors. Reforms were initiated during the Carter administration but progressed rapidly once Ronald Reagan took office. Tax breaks for corporations resulted in reduced revenues for the national treasury. Many corporations paid much more in foreign taxes than in local taxes. Tax rates for wealthy individuals were reduced as well, from 94% in the 1950s to the current cap of 39.6%.

Lowering taxes for the wealthy resulted in the largest redistribution of wealth in U.S. history. From the end of WWII until the late 1970s, incomes were becoming more equal. In 1976 the top 1 percent of households received 8.9 percent of all pre-tax income; by the late 2000s this share had increased to 21 percent. According the U.S. Census, the incomes of the top 5 percent of Americans increased 72.7 percent from 1979 to 2009 while the incomes of the bottom 20 percent decreased 7.4 percent (Inequality.org). Once inflation is taken into account, a young American male now makes 12 percent less than what his father made 30 years ago (Stiglitz).

Even though revenues for the federal coffers had been drastically reduced by cutting taxes for the rich, the government continued to spend enormous amounts of money on the defense budget, once again with prompting by business interests seeking bolstered profits from military contracts. After spending more than $13 trillion in the post-WWII period to win the Cold War, US military expenditures continued to rise even in the absence of a Soviet threat. Clinton spent more on the military than Richard Nixon did in 1975 and almost as much as Lyndon Johnson did in 1965, presiding over a defense budget triple that of Moscow and almost double that of France, Germany, and Japan combined (Bandow). George W. Bush pushed defense spending into overdrive by launching two disastrous wars into Iraq and Afghanistan. At a burn rate of $12 billion per month, these excursions are projected to reach a total cost of $4-6 trillion once the final tab comes in (Londono, Hanley).

Reduced tax revenues coupled with the spending increases of the military-industrial complex led to the enormous federal budget deficit that has now become a national crisis. Business leaders, unwilling to cede any of the ground they had gained, instead found a scapegoat in government programs such as Aid To Families With Dependent Children, popularly termed “welfare.” Stereotypes such as “freeloaders” and “welfare queens” were touted as the real culprits in the budget

crisis in order to gain middle class support for program cuts. These ideas seemed to be gaining traction, but the elites suffered a considerable setback when their presidential candidate Mitt Romney extended the blame for America's financial woes to the middle class as well, claiming that 47 percent of Americans were freeloaders (Corn).

While America's poor and middle class struggled to make ends meet, wealthy individuals and corporations poured their tax windfall into the financial markets. The new influx of money fueled an unprecedented rise in the stock market and provided funds for the expansion of the booming credit industry. The federal government, foreign governments, and millions of individuals eagerly submitted themselves to a yoke of debt in order to escape the effects of the economic crisis. Individuals who resisted indebting themselves usually succumbed to the bombardment of television and mail offers for credit cards.

Foreign governments desiring loans for development were required to submit themselves to the policies of the World Bank and the International Monetary Fund, organizations that served as agents for the industrial masters of the First World. These institutions functioned much like collection agencies, forcing the debtor countries to make repayments on their outstanding loans by whatever means necessary.

Since the average citizens of the lower income countries were 55 times poorer than the average citizens of the developed creditor nations, extracting enough hard currency to make loan repayments could only be accomplished by implementing rigid austerity programs that eliminated public sector spending on vital services such as basic healthcare and education, thereby deepening the plight of people already living at little more than a subsistence level (George xv). In places such as Africa, countries reduced expenditures on public healthcare by as much as 50%, causing infant mortality rates to double. Government expenditures on education in this region were reduced by 25% (Araghi, "World Bank" 1).

The result of these structural adjustments imposed by the World Bank and the IMF was an ironic flow of resources from the underdeveloped nations of the Third World to the wealthier industrialized nations of the First World. From 1982 to 1990 the total capital inflows to the Third World were $927 billion. Outflows of capital from the Third World to the First World to service debts, on the other hand, were $1345 billion. Thus, the net transfer of resources to the First World amounted to $418 billion, a number that did not include other capital transfers in the form of royalties, dividends, repatriated profits, and underpaid raw materials. In 1948 the United States transferred $14 billion ($70 billion in 1991 dollars) to help rebuild Europe after the devastation of World War II. From 1982-90 the economically devastated nations of the world transferred the equivalent of six Marshall Plans to the wealthy nations of the First World. Yet after nearly a decade of enormous debt-

servicing payments and rigidly-implemented austerity programs, the indebted nations of the world began the 1990s sixty-one per cent more in debt than they were in 1982. The debt of the least developed countries had increased by 110 percent (George xiv-xvi).

The burden of the debts was felt most by the poorest citizens of these nations who had to accept lower wages and reduced public services. The uppermost level of society remained relatively insulated from the negative effects of the debt crisis, since they could shelter their assets in foreign bank accounts and take advantage of the low wages to acquire cheap labor to employ in their businesses and households. Reduced public services were not missed since they could afford to acquire private ones (George xvii).

In addition to public sector austerity programs, the IMF and the World Bank required the debtor nations to implement structural adjustments in their economies that would align them with the development model created by the already industrialized nations. The First World powers, which had protected their fledgling industries with trade barriers until they had fully developed, now obliged the debtor nations of the Third World to keep their markets open by signing agreements such as the General Agreement on Trade and Tariffs and the North American Free Trade Agreement. Third World nations, unable to compete in the marketplace with industrial goods, had no choice but to become export platforms for raw materials and cheap labor in service to the First World industrial powers. As agricultural production was shifted to cash crops grown on large farms, poorer farmers were displaced from their lands and forced to settle on the periphery of the large urban centers and compete for an insufficient number of low wage jobs in the factories serving the export industry. Those not able to find employment would have to turn to crime or the informal economy. Currently in the world there are 197,000,000 people who are unemployed and 397,000,000 of those lucky enough to be working live in extreme poverty (Orhanghazi).

Although the switch to export-led agricultural production was promoted as “agricultural reform” and supported by post-mercantilist/neo-Ricardian economic theories emphasizing specialization in the global market instead of national development, the results of such policies further widened the gap between the rich and the poor in these nations. The “reforms” were accomplished by deregulating the industry and allowing world market demand rather than the government direct the course of agricultural production. Theoretically, the change should have brought about a more efficient allocation of resources, eventually benefitting everyone; In reality, however, this was not the case (Araghi, “Global Depeasantization” 356).

Market theory, useful as it may be, has a number of limitations which are overlooked by many of those who promote it with an almost religious fervor. First

of all, the market, if left to its own devices, only perpetuates previously existing inequalities in wealth and income. It is financially rather than morally driven and is completely blind to the social and resource costs of production. Also, in the absence of social constraints placed on it, the market leads to the concentration of economic power in the hands of a few. When the principle of "survival of the fittest" is given free reign in society, those with greater economic power end up controlling or exploiting those with less (Lappe, *World Hunger* 78-80).

Farshaad Araghi supplies a useful corollary to market theory as applied to deregulation in the agricultural industry: "nonintervention on the part of the state is in fact a form of intervention, because the existing inequalities of wealth and power will in practice make the rich—rather than the masses of near-subsistence peasants/workers—the main beneficiaries of deregulation" (Araghi, "Global Depeasantization" 356). As agricultural production in undeveloped nations was entrusted to the care of the world market through deregulation, devastation soon followed: Local staple foods were no longer produced in sufficient quantities to support the population, resulting in widespread hunger and malnutrition. The yearly death toll for those falling victim to hunger now stands at 18 to 20 million people—more than double the number who died each year during World War II (Lappe, *World Hunger* 3).

In response to the growing economic calamity the marginalized populations of the world resorted to the only means available to them to attain some measure of economic security: having more children. While such reasoning may seem strange to a citizen of an industrialized nation where economic security is generated by such devices as social security and pension funds, to someone in the Third World children often provide the only means of survival when the household breadwinner becomes too old or too sickly to work. Eighty to ninety percent of the people surveyed in the nations of Indonesia, South Korea, Thailand, and Turkey plan to depend on their children to support them in old age (Lappe, *Population* 22).

Studies conducted in some of the world's poorest countries have shown that in the rural economy, children begin to contribute more than they consume by the time they have reached adolescence (Lappe, *Population* 21). In urban areas children contribute economically to the family through "sibling assistance chains." Each successive child that completes school is in a position to help support the next one to climb higher on the educational ladder and get a higher paying job.

Also, a "lottery mentality" often prevails in societies where no opportunities for betterment can be seen. Parents cling to the hope that if they have enough children, perhaps one will be smart enough to get an education and free the family from poverty. While many children become an economic drain to parents earning adequate wages, when wages are too small to support the family, or the parents are unemployed, children can be an asset. They can support the family by working in

the informal economy, performing such services as washing windshields or selling candy and trinkets in the streets (Lappe, *Population* 21-24). Although population growth has stabilized in the industrial nations, growth continues at an alarming rate in the world's poorer regions, adding further pressure to the crisis.

Heightened economic pressure in the Third World has also led to the problems of war and migration. Ever-increasing competition for scarce resources among local peoples in the world's undeveloped regions has ignited pre-existing rivalries into a steadily increasing number regional wars. Many of the newly formed nations in the Third World have had to contend with conflicts between various groups of heterogenous peoples who found themselves fenced in by arbitrary national borders drawn by the colonial powers of the previous era. It is not surprising, therefore, that 174 of the 186 wars since 1945 have occurred in the Third World (Hauchler and Kennedy, 179).

Refugees attempting to escape war or persecution from opposing groups in power now number about 16 million worldwide. To be added to these are between ten and twenty million more people who have been uprooted and live as refugees within their own countries. Others have attempted to escape the dire poverty at home by working illegally in First World nations. Currently, there are estimated to be 175 million illegal workers worldwide, eleven million of whom reside in the United States. Such workers are often exploited since they do not have the same rights as citizens and are willing to submit to many abuses for fear of deportation (Hauchler and Kennedy 124-126; Papademetriou).

As the undeveloped world sank further and further into poverty, America enjoyed a "wonderful moment" of prosperity during the 1990s and early 2000s. By the mid-1990s, the United States had experienced the greatest economic boom in 25 years and the third longest on record. GNP growth was steady at 2%. Unemployment dropped to under 5%, a 24-year low, while inflation hovered at approximately 3%. For years policymakers had been unsuccessful in their attempts to reduce joblessness without simultaneously increasing inflation. Central Bank Chairman Alan Greenspan was given the credit for achieving this miracle and dubbed "Maestro." (Baumohl 54).

With a spirit characteristic of every generation of those caught up in the euphoria of an economic boom, rational explanations were put forth to demonstrate why this one was different from all the rest: "Those decades came to ugly conclusions, alas, but this one is likely to be different. Why? Unlike most earlier expansions, which crashed to earth when the Federal Reserve raised interest rates sharply to cool down an over-inflating economy, the 1990s-style growth shows few signs of strain. To the contrary, a rare combination of price stability and moderate gains in the gross domestic product has made this upturn remarkably steady" (Pooley 32). America's "wonderful moment" was felt not only by the

capitalist class, but by the public at large. A contemporary TIME/CNN poll indicated that 54% of Americans, nearly half of whom were earning less than $20,000 a year, felt like they were living in a period of "good times" for the country (Pooley 30). The perceptions of the people and the pundits of that era seem ridiculously naive to someone living in the post-apocalyptic world following the 2007 financial crisis.

Whether in good times or bad, peoples' perceptions must be manipulated to keep the party going as long as possible and to keep everyone from running for the doors once the fire breaks out. The mass media has become a highly effective tool for shaping the opinions and ideology of the public at large. Approximately 20 media companies print and distribute the majority of the materials read by the public. Local newspapers are almost always owned by larger corporations. Those desiring to express viewpoints divergent from corporate interests are faced with editors unwilling to publish articles that would threaten their corporate advertising constituency. The costs of independent publication or television airing have become prohibitive for any organization that does not have deep financial pockets. The Internet held the promise of leveling the playing field, but the era of free ranging on the frontier is quickly coming to a close. Most people surfing the Internet are now corralled into feed lots where they are provided with information supplied by the highest bidder to the search engines.

Convincing the public that the financial crisis is over and that they should spend rather than save has become paramount in the effort to keep resources flowing toward the top. Yet eventually, even those living in the Penthouse will have their day of reckoning, as there is no longer any structural basis for the prosperity that was enjoyed by so many in the decades following WWII. This fact is neglected in the many financial articles penned by hedge fund managers and big bank economists. They cite numerous statistics as indicators of a renewed growth spurt. They claim to see the forest from a distance, but they have not walked through it and looked at the state of the trees—or of the soil they are planted in, which has become depleted of the essential nutrients necessary to sustain growth.

Given the similarity between the patterns visible in the American systemic cycle of capital accumulation and those of the Genoese, Dutch, and British regimes, the most logical conclusion is that the U.S. position of hegemony over the world capitalist system is coming to a close, as signaled by the shift from investment in trade and production to high finance and the accompanying "wonderful moment" which this shift produced (and which now appears to have ended catastrophically). Nevertheless, since the 1970s the debate has raged on between "declinists" who prophesy America's fall and "revivalists" hopeful of a renewed cycle of US dominance over world markets (Hauchler and Kennedy 36). An obvious question for the revivalists is why, and more specifically—with what resources, such a

return to dominance will come about. The answer provided by most seems to be, "Because we are Americans." The resources part of the question doesn't appear to be that relevant.

Works Cited

Araghi, Farshad A. "Global Depeasantization, 1945-1990." *The Sociological Quarterly* Vol.36 (No.2): 337-368.

_____. *Social Change Lecture Series.* FAU Broward Campus. Ft. Lauderdale, May/June 1997.

_____. Forthcoming. "The World Bank and the Third World Agriculture: A Review of *Faith and Credit*, *Mortgaging the Earth*, and *50 Years Is Enough*." *Contemporary Sociology.*

Arrighi, Giovanni. *The Long Twentieth Century: Money, Power, and the Origins of Our Times*. London: Verso, 1994.

Bandow, Doug. "The Case for a *Much* Smaller Military" *Fortune*. June 23, 1997.

Barlett, Donald L., and James B. Steele. *America:Who Really Pays The Taxes*. New York: Simon & Schuster.

Baumohl, Bernard. "The Best of Times?" *TIME* July 28, 1997: 54.

Corn, David. "SECRET VIDEO: Romney Tells Millionaire Donors What He REALLY Thinks of Obama Voters." 6 June 2013. <http://www.motherjones.com/politics/2012/09/secret-video-romney-private-fundraiser>.

George, Susan. *The Debt Boomerang*. London: Pluto Press, 1992.

Hauchler, Ingomar, and Paul M. Kennedy. *Global Trends: The World Almanac Of Development and Peace*. New York: Continuum, 1994.

Hanley, Charles J. "Studies: Iraq Costs US $12B Per Month." 10 March 2008. 6 June 2013 <http://www.huffingtonpost.com/2008/03/10/studies-iraq-costs-us-12b_n_90694.html>.

Inequality.org. "Income Inequality." 6 June 2013. <http://inequality.org/income-inequality/>

Knoke, William. *Bold New World* New York: Kodansha America, 1996.

Lappe, Frances Moore, and Joseph Collins. *World*

Hunger: Twelve Myths. New York: Grove Weidenfeld, 1986.

_____. T*aking Population Seriously*. San Francisco: The Institute For Food and Development Policy, 1988.

Londoño, Earnesto. “Iraq, Afghan wars will cost to $4 trillion to $6 trillion, Harvard study says.” 28 March 2013. 6 June 2013. <http://articles.washingtonpost.com/2013-03-28/world/38097452_1_iraq-price-tag-first-gulf-war-veterans>.

Mann, Donald. “A Monthly Commentary on Population and Immigration Issues.” *The NPG Journal*: Vol. 5, No 3, 6 February 2012. 16 April 2013. <http://www.npg.org/npgjournalv5n3.html>.

Marx, Karl, and Frederick Engels. “The Manifesto of the Communist Party.”*Readings In Social Theory*. Ed. James Farganis. New York: McGraw-Hill, 1996.

Orhanghazi, Ozgur. “The Global Unemployment Crisis.” 30 March 2013. 6 June 2013. <http://www.truth-out.org/news/item/15428-the-global-unemployment-crisis>.

Pollard, Sidney, ed. 1990. *Wealth &Poverty: An Economic History of the Twentieth Century.* Oxford: Oxford University Press.

Papademetriou, Demetrios G. “The Global Struggle with Illegal Immigration: No End In Sight.” September 2005. 6 June 2013. <http://www.migrationinformation.org/feature/display.cfm?ID=336>.

Ritzer, George. *Sociological Theory*. Fourth ed. New York: McGraw-Hill, 1996.

Joseph E. Stiglitz, Joseph E. “The Economic Consequences of Mr. Bush.” December 2007. 6 June <http://www.vanityfair.com/politics/features/2007/12/bush200712>.