1

Global Capitalism

Two key institutions define capitalism: private property and market exchange. Both are historically rooted, which means that they were created and shaped by past (and, for the most part, recent) generations, and do not constitute a universal, timeless aspects of human society. Private property and market exchange are social institutions, which were forged, propagated, and entrenched through numerous political, economic, cultural, and even military conflicts. What we understand as "normal" or "natural" about the way the economy works is neither, and much of it is surprisingly new.

The characteristics often associated with capitalism: commerce, money, the pursuit of self-interest, and conflicts between "haves" and "have-nots," are not defining features of capitalism or unique to it. Indeed, all three were present in Soviet Russia, Feudal France, Ancient Rome, and Old Testament Israel. None of these societies would typically be described as "capitalist," and so the term must connote something more. The institutions of private property and market exchange must be distinguished from the commonplace practice of ownership or commerce. They represent what can be described as core economic rules that underlie the social pact between modern states and societies. Private property and economic markets are legally integrated into a structure of governance. Capitalism is the economic system that operates under those rules.

In capitalism, objects, money, ideas, and spaces, can be

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appropriated by individuals (or legal entities like corporations). Their ownership grants them the right to determine how these assets will be used and to claim the profit or return on these activities, and any attempt to re-appropriate these assets faces legal and normative hurdles. The extent to which this marks a significant historical change merits highlighting. Not so long ago, many people could not claim ownership over their bodies or the freedom to sell their labor on a market; they literally did not own themselves, let alone other assets. Our notion of property has now grown so extensive that people own images, ideas, or even genetic sequences. Whether celebrated or bemoaned, private property is fundamental to capitalism. Without an acceptance of this tenet, the remaining economic and political structure of capitalism falls apart. As far as capitalism is concerned, we are what we own and what we sell.

Capitalist societies have developed a rich social infrastructure to facilitate and safeguard voluntary exchange through markets. Historically, most property transfers, beyond the smallest transactions of daily life, occurred by means of coercive appropriation and political patronage. In the ancient economy, most assets moved across communities by plunder, and exchanges as commonplace today as the transfer of real estate moved by grants from political powers rather than by purchase (Finley 1999 [1973]). Over time, some societies created institutions that allowed and encouraged voluntary transactions hinging on competition over price and quality. This does not imply that capitalism operates without any compulsion or violence, but to emphasize the extent to which individual autonomy within an explicit legal constraint is the main operating principle of this form of economic life.

In the ideal, each economic actor, whether as an owner of property or seller of labor, is free to make decisions regarding the sale, rent, and use of what they have to offer, each following no other norm than the pursuit of their self-interest. These forces come together in a market where exchanges take place that will literally link billions of offers and demands. Ranging from the face-to-face negotiations between a single buyer and a seller to the electronic auction of derivatives among millions, markets essentially match

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the supplies of goods and services with the demands for the same. Markets allocate the flow of goods and payments according to the intrinsic logic of a balance between needs and offers.

Varieties and Convergence

Within this basic framework, however, capitalism can be organized in a myriad of ways. Different capitalisms take distinctive shapes, and are experienced in dissimilar ways. Scholars have produced a range of typologies to describe the varied forms that capitalism can take. Some see the main distinction in the extent to which the state is involved, and, more importantly, how investment is allocated.

Peter Hall and David Soskice (1999), for example, distinguish between "coordinated market economies" and "liberal market economies." Both are inherently capitalist systems in that the rights of property and the centrality of the market are respected, but there are critical distinctions in how these two institutions are managed. In the liberal market economies, decisions are made either through hierarchies within firms or in markets between them. Relations are instrumental and calculated for the benefit of individual players. In coordinated market economies, relations exist outside of formal market mechanisms, and involve cooperation in achieving some collective goals. In this case, investment choices will involve coordination between owners of capital (often in the form of banks rather than individuals), labor, and state authorities

A parallel (but often related) distinction is the extent to which the two systems provide welfare provisions for their populations. "Liberal market" systems tend to have smaller safety nets than coordinated economies, thereby exposing people to more stringent hardships should they not find a productive or remunerated role in the economy. The United States is a paradigmatic example of the liberal system, in that public provision of things like guaranteed income, childcare, or health care is relatively limited compared to countries of similar wealth. Alternatively, countries like those of the European Union tend to offer a richer

CENTENO TEXT (M2031).indd 13 5/10/09 14:18:03

array of government-subsidized or -provided income or products to guarantee some level of economic safety or comfort to those who cannot (or will not) secure them through market participation. While both kinds of systems are fundamentally capitalist, they differ in terms of the degree to which people must secure "necessities" by successfully competing in markets.

William Baumol and his colleagues (2007) offer a typology that differentiates the size and monopoly of power of a country's economic enterprises, overall or in particular markets. In this case, the emphasis is on the level of what they call entrepreneurship or the creation and dissemination of new products or methods. For Baumol, the world's economies are divided into *state-guided* capitalisms (where government plays a central role), *oligarchic* capitalism (oriented toward the interests of a few players), *big-firm* capitalism (where giant enterprises predominate), and *entrepreneurial* capitalism (in which small innovative firms play a more central role). State-guided capitalism (epitomized by East Asian economies in the 1950s through to the 1970s) can have excellent success if governments can set their economy in the right direction. Some economies have experienced great development successes as state-guided systems, but this form of organization has also produced giant failures in others. Oligarchic capitalism is usually found in economies that focus on commodity production, such as the Middle Eastern oil producers, and, to a lesser extent, some Latin American countries. These economies' fortunes tend to be tied to the prices of a single commodity with the predicted boom-and-bust patterns. In big-firm capitalism, a set of predominant companies or agglomerations thereof is able to dominate. The prototypical examples are Japan and Korea in the 1980s, and, while the success of these speaks well of this model, the failure of sectors such as auto production in the United States attests to its limits. Finally, small and innovative firms characterize entrepreneurial capitalism. Rather than national examples, the economies of the American Pacific Northwest, or those of Italian Emilia-Romagna, best exemplify this type. However, a permanent entrepreneurial economy is almost a definitional impossibility and it would likely blend with one also focused on large firms.

CENTENO TEXT (M2031).indd 14 5/10/09 14:18:03

Note again that in all these variations, the central principles of private property and market exchange remain privileged. What differs is the set of institutional provisions in which these are embedded. These arrangements in turn help define who will benefit from (and how much), and who will pay for (and how much) global capitalism.

While these differentiations help us understand the various forms that capitalism can take, it is not clear how they affect the integration of the respective economies with a world market. The term global capitalism implies much more than economic activity in different national borders. At least in theory, one could have an "international" economy consisting of autarchic domestic economies engaged in limited commerce with each other. Or one can imagine (as was largely the case well into the nineteenth century) an international economy whose connections involved luxury goods or a few "products" (sugar and slaves, for example). A global economy, however, implies one in which few if any of the domestic economies really exist separate from the planetary whole. A global economy is one that is interconnected and networked across a variety of borders, as well as including a variety of goods and services. It also presupposes a set of agreements regarding the "rules of the game," whether these involve accounting regulations or business norms.

Global capitalism arose through the diffusion and entrenchment of the twin institutions of property and markets to virtually all corners of the earth. Fifty years ago, many of the world's economies were strongly controlled by governments and existed in semi-autarchy. For many countries in 1959, the sanctity of private property was weak (if it existed at all), and the power and autonomy of private markets were more limited (if they were allowed to operate). The role of foreign markets and investors was limited. By the summer of 2008, private property and markets had become well-entrenched features of most countries' economies and the relations between them, and had expanded to an ever-widening scope of activities. Societies had come to commodify, trade, and monetize practically every social institution or human product. No economy could afford to be isolated.

CENTENO TEXT (M2031).indd 15 5/10/09 14:18:03

The result is that we produce and trade more, and we have garnered spectacular improvements in our consumption. The global economy is now larger than it has ever been and the pace of its growth has been unprecedented over the past half-century (despite the recent shocks). World GDP increased sixfold from 1950 to 1998, with an average growth of 3.9 percent per year compared to 1.6 percent between 1820 and 1950 and 0.3 percent from 1500 to 1820. Over the past ten years (prior to the summer of 2008) the world economy has grown by more than a third and some of the poorer parts by two thirds. Each person in the world (*on average* – but many are above it and most are below) is now seven times richer than 100 years ago and four times richer than just fifty years ago.[1] Due to improvements in technology, the last fifty years have seen a fivefold increase in production per hour worked. The total amount of merchandise exports (the amount of goods that countries send out to the global market) is roughly $10 trillion per year. Annual global financial flows include over $625 billion invested across borders, $227 billion sent by migrants back to their countries, and $750 billion spent by international tourists. $1.5 trillion is exchanged in currency markets *daily*.

While global capitalism is experienced in different ways by different people at different times, it also represents a major phenomenon that all of the world's countries have felt over the past thirty or forty years. We are less interested in the varieties of *domestic or national* capitalism than in how different societies experience its *global* variant. In this instance, one can speak of much greater convergence than that found among the national variations. Global capitalism is, in some sense, a historical development with which all societies grapple in common. To a very large extent, all participants in the global capital system need to play by the same rules (some of which bind all countries, and others that can be applied or enforced more selectively). We can speak of a global capitalist order to which a very large part of the world now belongs. Unlike the situation prior to 1989, those who do not accept these rules are marginalized.

One set of rules has to do with the explicit and implicit laws that govern transnational transactions. Property rights are established

CENTENO TEXT (M2031).indd 16 5/10/09 14:18:03

and protected by nation-states. In this way, global capitalism still very much depends on the supposedly anachronistic notion of territorially defined authority. While there are global bodies in charge of overseeing and standardizing property claims (and this is particularly important for intellectual property), an individual or firm must establish its claim to any asset in a national jurisdiction. It is important to note that no global bodies exist with enough power to enforce these rules over and above the laws of national states. In one of the most interesting paradoxes of global capitalism, its own global dynamics are based on national and territorial governance.

The implications of this system are critical for a global system to work: states must recognize the property claims of other countries' citizens, and transnational payment for goods and services or contracted service of debts is demanded of all players – the transport of one's asset to a different part of the world does not imply the surrender of rights to it until payment has been received. The global capitalist system is governed by a set of rules based on those established in large parts of Western Europe and North America to manage and regulate their domestic markets in the eighteenth and nineteenth centuries. This is a central point in order to understand many of the international debates on the future of the market. Whether one treats the basic rules of capitalism as "natural" or stemming from a historical domination by a part of the world will make a significant difference in attitudes toward capitalism (Robinson 2004). In this way, the social context through which global capitalism is perceived and analyzed can make a great deal of difference.

It is also important to recognize the expected or assumed motivations of those involved in global capitalism. In the twenty-first century, the pursuit of self-interest and specifically financial profit from transactions are expected. There are some global institutional actors motivated by and acting under altruistic norms, but the global economy functions under the assumption that each person is seeking to make money on any transaction. The global food trade, for example, is not driven by a concern to feed the world's population, but by the desire to make money from selling commodities and products to consumers. As we now know, bankers

CENTENO TEXT (M2031).indd 17 5/10/09 14:18:03

were after short-term profits, and not concerned with establishing stable systems of payments, transparent economic information, or prudent allocations. This is still accepted as legitimate by the vast majority of the world's population (as long as the game is played by the minimum accepted rules). Again, perceptions of this can either involve the freeing of human nature and choice, or the enslavement of our emotions by materialist desire. Either way, it is important to appreciate how central such an assumption of self-interest is to the social underpinning of global capitalism, and how relatively new such an assumption truly is (Hirschman 1977), as well as the extent to which a rejection of such assumptions forms the basis for much of the resistance to global capitalism.

Another critical regulation concerns the freedom to truck and barter across borders. Fetters on cross-border exchanges are increasingly discouraged and sanctioned. The capitalist system is arguably more open across the globe than at any other time in history and former non-market "intrusions" on trade, such as tariffs, subsidies, or embargoes are becoming less commonplace. There are significant exceptions and these are linked to power asymmetries (as will see in later chapters), but the percentage of global transactions of goods, services, and money that operate without significant national hindrance is ever expanding. The major exception (and a significant reversal from historical norms) involves labor. While sellers and buyers of practically any asset can utilize the global market, those who wish to sell or purchase labor cannot except in highly elite sectors (entertainment, the academy). The construction of segmented channels into the global market (a privileged one for goods and capital, a much more restricted one for labor) indicates once again how much we need to understand the construction of global capitalism as not arising from a vacuum, but reflecting underlying interests and powers.

Differing Roles within the Same System

Applying Donald Black's theories of law (1976) to the global system, we could say that the salience of these norms and

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regulations decrease dramatically as we approach the peripheries of the system. For capitalist relations between countries at the core of the capitalist system, regulations tend to be applied both stringently and relatively even-handedly. There is, of course, some tough brinksmanship between OECD countries, for example, but there is often a core dedication to maintaining international trade and investment and private markets.

As we move toward the external districts of the capitalist economy, the prevalence of democracy, limitation of corruption, capacity for governments to govern, and average standard of living drop precipitously. These frontiers are commonly described as the "global periphery." Transactions between actors at the frontier of the global economy – including in the business of government – are fraught with uncertainties, transparency problems, systemic instability, and a sad legacy of squandering economic opportunities. Relations between those closer to the center and those on the frontier may also deeply reflect the asymmetries of power.

What separates the core from the periphery? For Wallerstein (1996), a first-order difference is the amount of capital present in a society. Simply put, the rich are different. Just as importantly, the core is differentiated from the periphery by the former's capacity to enforce control over that capital through the capacity of the state. In the final analysis, states remain the actors of paramount importance in the global economy, and any explanation of a societies' economic character, power, or prosperity must consider seriously the role played by governments. The core capitalist countries are economically rich and powerful, but also the most politically stable and militarily dominant. Governments play substantial roles in advancing other important factors, such as technological advance, basic health, or educational levels. When we speak of the rich, we also speak of the governed. Another way of thinking of the difference is that the global economic system is capitalist because the countries in the core are capitalist. In the periphery, countries are capitalist because the global system is capitalist.

The United States stands alone as the capitalist core's first-order power, most central venue, and chief guarantor.[2] Its economy constitutes one quarter of global value-added (whether real or

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financial). Coupled with Canada and Mexico – two very strong allies (and, some might argue, dependents) – the North American Free Trade Association (NAFTA), accounts for 30 percent.The North American relationship with the global economy is in part dictated by its sheer enormity. First, the size of its domestic market makes it economically less reliant on trade (exports of goods and services account for only 10 percent of the American GDP as opposed to 26 percent of the French, 35 percent of the German, and 44 percent of the Korean). It is the world's principal consumer, absorbing 16 percent of global exports and providing considerable demand for other countries' output; when the US consumer stopped spending, the whole global system faced a major economic slowdown (if not outright collapse). The US is also the central destination for global financial flows, absorbing over half a trillion dollars in net transfers every year. The vast majority of international currency exchange involves the exchange of a US dollar for something else, and the world's assets are typically valued in local and US currencies. Despite its recent declines, the dollar, US banking system, and US equity markets remain the world's destination of last financial resort.

The second category consists of the other main engines of global capitalism which, in turn, could be subdivided into a European division including the UK and the Euro zone, and an Asian one including Taiwan, Japan, and South Korea (we deal with China below). Many of these are significant economies in their own rights, yet, while the EU as a whole is larger than the US, no country can individually claim the centrality of the United States (Germany and France combined represent roughly 40 percent of the American economy, Japan 30 percent). These countries, however, are much more significant players than the US in the global merchandise trade. The combination of France, Germany, the UK, Japan, Korea, and Taiwan account for almost twice the amount of merchandise exports, as does the United States or roughly one third of the global total. In some sectors of global manufacture, such as autos, steel, and electronics, they are even more significant. These countries also represent critical markets for producers of goods and particularly commodities. In the financial

sector, the rise of the euro and the development of twenty-four-hour electronic markets have made these countries as central as the United States. London, for example, possibly has replaced New York as the center of global finance, if the notion of a city acting as a "center of finance" really retains so much meaning.

These two macro categories do not necessarily parallel standard ones derived from the varieties of capitalism literature. The contrast between Mexican, Canadian, and United States domestic political economies could scarcely be greater given their proximity. In the second group, the United Kingdom's form of capitalism is arguably closer to that of the United States than that of their Nordic neighbors, while Japan and Korea pioneered their own combination of state-managed and large-firm capitalism. We note, then, a clear distinction between analysis of what we may call domestic capitalism and our more focused topic of its global variant. From the perspective of their roles in a global capitalism, however, the two groups make up the central core of the system with the United States clearly still serving as first among equals. In order to appreciate the relative importance of these countries, note that while they contain roughly one sixth of the world's population, they account for over three-quarters of global income.

Three other categories deserve special attention. The first and most important for the future structure of global capitalism are the new claimants for membership in the central core. The four largest of these are Brazil, Russia, India, and, most notably and importantly, China (the so-called "BRIC economies"). Combined, these economies account for roughly 10 percent of global income (they are individually ranked 10th, 12th, 11th, and 4th in the globe, but combined they are still roughly half the size of the US alone). In terms of global trade they are even more significant. China is the key player in this group, and arguably deserves as particularistic a status as the United States. These BRIC societies, however, are also what we may call bifurcated economies. In the case of China, for example, its eastern coastline clearly is at the core of global capitalism, but roughly half of its population remains marginal to that system as consumers or producers. Similar divisions plague Brazil and Russia, and even more extreme ones characterize India.

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These inequalities not only represent limits on the integration of these societies within global capitalism, but also remain long-term challenges for the continued success of their economies.

Another significant category is that of commodity producers, who participate in global capitalism by providing its fuel in the form of petroleum, gas, minerals, and food. One subgroup consists of those wealthy enough to also represent important consumer markets for construction, arms, and luxury goods (the Gulf States). Others share characteristics with the "bifurcated" economies discussed above in that their output plays a central role in the global economy, but their national economies remain vastly underdeveloped (Angola and the Congo are extreme examples of these). Depending on the price of their respective commodities, these countries may also play a very important role in global financial flows.

The final category includes those countries that for all intents and purposes play a marginal role in global capitalism. Consisting of practically all of sub-Saharan Africa, and significant parts of South Asia and Latin America, these countries include roughly one-third of the global population, but only account for less than 3 percent of global production and even less of global trade. They typically sell local commodities, opaque financial systems, and/or cheap unregulated labor. They have a long history of being subverted by the world's major powers, but an equally impressive record of destroying their national economies by internal means. They constitute a massive, and massively marginalized, people. They are at once a fertile field from which economic profit can grow, and wastelands of violence, corruption, lawlessness, and exploitation.

There are (and will remain) real differences between the world's societies, and these differences are non-trivial. However, global capitalism can also be seen as a homogenizing force in contemporary global society. The scope of this change can be seen in a very wide range of international economics statistics, which we will analyze through the book. But, beyond affecting conventional macro-economic metrics, the capitalist transformation has also rewritten many of the basic cultural assumptions upon

CENTENO TEXT (M2031).indd 22 5/10/09 14:18:03

which economic life is premised. The ubiquitous spread of market logics to an ever-expanding range of instrumental transactions has transformed social life worldwide (Zelizer 1994). The *market logic* can be understood as a form of social organization premised on materialism, individualism, and rational utility-maximization. In this context, *materialism* is the emphasis of the provision and consumption of goods and services as a social goal and metric of success. The "good life" is one in which we own and consume as much as possible, and the "good society" is one that provides people with maximal consumption possibilities. *Individualism* refers to the desirability or practical necessity of organizing a society in which individuals' efforts are geared primarily toward their personal self-interests. Social demands that place community or country ahead of personal interests come to be seen as oppressive and undesirable. *Rational utility-maximization* refers to the increasing use of material cost-benefit analysis as a means of making practical social decisions. Decisions that render economic profit are seen as desirable, and those incurring economic loss are to be avoided.

Historical creation

The march of capitalism is often imagined as a unitary, unidirectional, natural, and irresistible force of history. Yet present-day global capitalism was neither inevitable nor unavoidable. Instead, it emerged from a very long and messy process that was steered substantially by struggles over material wealth, culture, institutional entrenchment, and power.

Neither the pursuit of self-interest nor the material exploitation of others was new to the capitalist era. Economic exchanges have existed in many societies without the accompanying social characteristics we associate with capitalism. We certainly have evidence of market transactions going back as far as the invention of writing (and the rise of the two social phenomena is inherently linked). We may also speak of global (or last "Old World") trade as far back as the Roman Empire's links with the Han dynasty connecting the Mediterranean to the Silk Road. By the tenth century, the Sahara

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served to link large parts of Africa to the remains of this system, and the Indian Ocean was a central arena of global transactions in the thirteenth century (Abu-Leghod 1989). The Spice Trade, the conquest of the Americas, and the creation of slave economies further integrated the global economy (Braudel 1982). The Imperial Age culminating in the nineteenth century created the basic political and economic infrastructure, the legacy of which still helps define global capitalism.

The political and social foundations for capitalism, however, represent much more than the mere truck and barter of a market. These include, as discussed above, the acceptance of the need for a system of exchanges and contracts in order to allow interactions between individuals. Where did these come from? The practically simultaneous establishments of the British and Dutch East India Companies at the start of the seventeenth century may best serve as the official birth of global capitalism (Wallerstein 1974). What distinguished these forms from previous economic pursuits were their ownership structure (based on equity shares), sheer size (each had thousands of employees, controlled massive territories, and was responsible for a significant percentage of world trade), and their global scope. The later development of the global slave trade equally represented the expansion of a form of market transaction to a global level. Note that in these cases, the fulcrum of change was the European expansion of power and the imposition of a set of institutional logics designed to produce profit for the elites of that continent. Some would argue that these origins still characterize global capitalism.

This expansion of power combined with a technological and organizational explosion. Beginning some time in the early to mid-eighteenth century (the exact timing of both the Agricultural and Industrial Revolutions has been the subject of considerable debate), a historically bounding production ceiling was removed (Maddison 2001; Overton 1996). This allowed the expansion of, first, agricultural production, and then industrial manufacture. The latter was partly based on a slew of new innovations making ever better use of steam power and then coal, but it was also the product of a new form of organization: the factory.

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The debate on when exactly the transformation began, what caused it, why (or even if) it was centered in England and Northwestern Europe is one of the longest running and most productive in academic history. For our purposes, the major debate is the one between those who attach central importance to organizational and technical innovation and those who focus on the interests of a particular social group (Landes 1999; Perrow 2005). We wish to argue that privileging one over another has more to do with a general view of capitalism (it is good in the aggregate, it is only good for some) than with the actual historical record. Moreover, from the point of view of global capitalism, its domestic roots matter less than the fact that the economic revolution was historically tied to the creation of a capitalist market in North America and Western Europe, and that the victory of capitalism to hegemony would have been impossible without the simultaneous global expansion of the "West." The central point here is that capitalism came from a place and at a particular point in time, and that has made much (if not all) the difference.

The more immediate origins of our contemporary global capitalism are in the years from 1820 to 1870, and from then to 1914. The first period established the technological and social foundation, initially in England, then Belgium, and then on to the rest of the continent. The second period saw a veritable explosion of growth and a gradual shift away from the earlier dominance of Great Britain as Germany and the United States overtook it. During those years, we see the beginning of the revolution in productivity that would characterize the long-term progress of industrial capitalism. In Western Europe, productivity increased an *annual* average of 1.5 percent and in the US close to 2 percent between 1870 and 1914. This meant that in the span of roughly forty years, one worker would produce twice as much as he or she had before.

The same period witnessed a dramatic growth in *social aggregation*, the process of integrating more people and territory into a single system of economic production and distribution. Many of the social innovations that can be credited for our increasing material standards of living fundamentally involve this process

CENTENO TEXT (M2031).indd 25 5/10/09 14:18:04

of aggregation, including divisions of labor, economies of scale, economic specialization, and resource pooling. In the sixteenth through eighteenth centuries, national markets and governments in Western Europe consolidated. At the same time, the countries of this region were finding ways to tap into, and eventually dominate both economically and politically, other parts of the world. European and North American goods flooded the entire planet, while commodities flowed toward the global centers to be transformed into consumer products. In this process, again, the role of the state was critical. Only the state could provide the protection and regularize standards and rules within national markets, and only the state could provide the protection to its own merchants when they ventured onto imperial shores. In this way, at least, it is impossible to imagine the development of global capitalism without the intervention and development of the state.

Not surprisingly, along with the aggregate expansion of wealth came the appearance of massive asymmetries in income across the world, as the West grew while others remained mired in stagnancy (or, in an alternative reading, were kept there by the imperial project itself). Most estimates agree that up to 1500 global economic growth was slow but equal. By 1870, global per capita wealth had doubled, and by 1913 it had tripled; simultaneously, the share of Europe to Asia came to be along the lines of 6 to 1 and that of North America to Africa close to 10 to 1. This regional wealth gap and its apparent permanence (except in the prominent Asian example) in many ways still define many of the challenges of contemporary capitalism (DeLong 1993: 4). Figure 1.1 indicates the revolutionary growth that occurred after 1820 (solid line and right-side y-axis). It also shows how the global share of Western Europe and its "offshoots" grew exponentially faster than the rest of the world from 1800 on. The reasons for this divergence remain so contested (to say the least) that any bibliographic summary would be inadequate. Suffice it that the reasons proposed have ranged from imperial perfidy to cultural superiority, and we will deal with some of this debate in chapter 2.[3] For now, two observations are critical: first, there is at least a historical coincidence between the rise of global capitalism and

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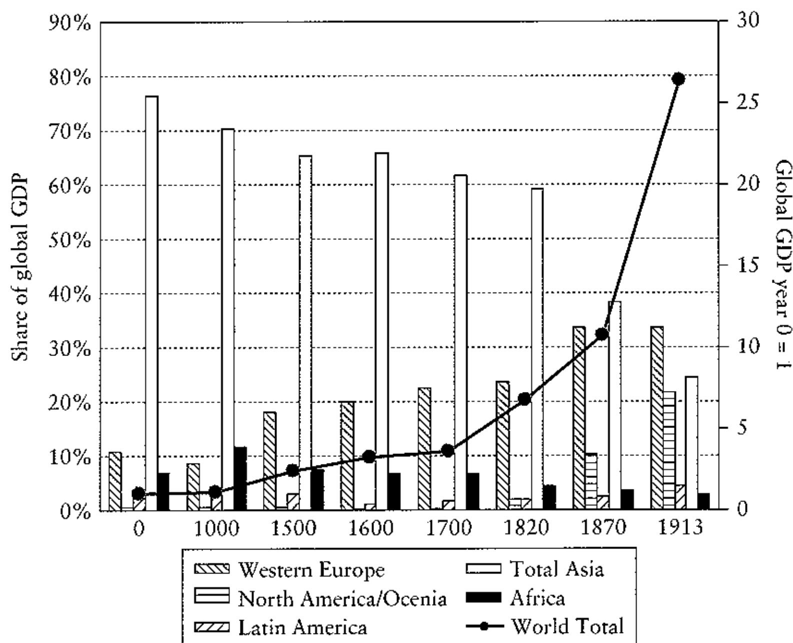

Source: Maddison (2001: 261)

Figure 1.1 Regional shares of global wealth

the expansion of Europe to global domination, and, second, as the world entered into the twentieth century, the lead enjoyed by the "West" was considerable.

Capitalism's advancement and its concurrent process of social aggregation of first national markets, and then global ones, unleashed two distinct forms of contradiction associated with "control" (Polanyi 1944). First, societies at the turn of the twentieth century became very large, and, in many senses, more difficult to control. Second, capitalism brought about significant changes in the constancy or predictability of daily life. In many ways, the advance of global capitalism stabilized material livelihood, but it also made each participant more reliant on the others, thereby reducing everyone's independence. Both mass social control and economic stabilization became serious problems during World War I and the Great Depression of the twentieth

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century (Hobsbawn 1994; Frieden 2006). The rivalry for markets and resources between the great powers was at least in part driven by the competition between their respective capitalisms. The rise of the new economic system produced social conflicts between those who had colonies and those who did not, those who benefited from freer trade and those who sought protection, between those who supported the dearer currency of gold and those who needed cheaper silver, and, of course, between those who worked in the "satanic mills" and those who owned them. The disruption of the pre-1914 system by global conflict shook capitalism to its core. Following the Great War, and after a few years of exuberant boom, the world then faced a decade of declining prices, production, trade, and employment. The Great Depression showed how complex and intricate the ties between economies were in the new global capitalism. Changes in the flows of money and goods from or to each one of the major players would reverberate throughout the system; no single economy was isolated.

The result of these crises was the apparent collapse of the first phase of contemporary global capitalism and the very real threat that it would be abandoned as a political and economic system. The failures of the interwar years, leading to the murderous catastrophe of World War II, did much to discredit the institutions of capitalism, prompting a popular backlash and sustained political effort to contain its effects. At this critical juncture, the path toward the contemporary version of global capitalism was defined by the actions of a single state and its imposition of a particular economic order on a significant part of the world.

Facing a largely destroyed world, in 1945 the victorious US dominated the global economy in almost every aspect. Its economy produced half of total global output, its farms helped feed Europe, and its currency ruled the world. US policymakers sought to create a more viable form of capitalism, led and maintained by the United States. After 1945, the competitions between individual countries became much more focused on the contest between the "two worlds": one "free" and capitalist, one socialist and largely dominated by the Soviet Union.

In order to triumph in this new competition, the capitalist

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victors created a historically unique system. It arose from conversations in a small town in New Hampshire called Bretton Woods. The system was unique in several ways. First, it was truly global in scope, focusing on not one economy or the other, but on their integrations. Second, while the system reflected and helped support the central role of the United States, this country did not seek to create a new version of a mercantile empire, but sought collective growth. The centrality and supremacy of the US in this system would be unquestioned, but it did provide an opening for other economies and societies to rise. This was the result of US awareness of its need for partners with which to do business, and for incentives to keep communism at bay. Third, it created historically unprecedented institutions that sought to smooth out the inevitable fluctuations of the global market. The "organized capitalism" by then established in domestic economies (due to the pressures of war and depression) was now applied to the entire world (Frieden 2006: 259; Eichengreen 2007).

The system was established to provide assurance in an uncertain world and prevent the insecurity that had had precipitated the disastrous 1930s. The two major institutions of this newly organized global economy were the International Monetary Fund (IMF) and the International Bank for Development and Reconstruction (World Bank). The first would allow members to borrow whenever trade flows temporarily went into deficit, while the second provided funds to create the global infrastructure needed by the new forms of trade. Soon thereafter, with the Marshall Plan, the United States committed itself to provide the capital needed for Europe to rebuild itself from the destruction of its wars (and to be its partners in the new order) while the General Agreement on Tariffs and Trade (GATT) ensured the freest possible flow possible of goods (Bordo 1993; Helleiner 1994; Ruggie 1982).

Within countries, the new model also spurred the creation of welfare states. Government participation in the economy and social transfers practically doubled, thus assuring that many parts of the richer countries' populations could and would participate in the new capitalist order. Decolonization led to even freer trade and the possibility of millions more consumers outside of Northern

Europe and North America (but also saw protectionist policies within developing countries). Domestic and international politics lent themselves to the creation of a new capitalism that sought to combine the developmental dynamism of the market with both international and domestic safety nets to protect those for whom the market did not provide.

There are three critical lessons to take away from the post-1945 "re-creation" of the capitalist economic order. First, the whole exercise was embedded in the political struggle of the Cold War. The global economic market was meant to make money, obviously. But it was also meant to use that prosperity as a strategic bulwark against an ideological and military enemy. Second, it was based on a series of supra-governmental institutions. The overall strategy might have been dictated by a state (the US), but explicit governance of much of the global order was given over to semi-autonomous institutions. Finally, in order to protect it from some of the threats it had faced in the interwar period, global capitalism was partly transformed through the creation of domestic and international income supports. This not only broadened participation, but also reduced dissatisfaction with the system.

The results were quite spectacular. The "Glorious Thirty"[4] years following the war represented a return to the pre-1914 booms. Global per capita income increased by nearly 3 percent a year or a doubling from 1950 to 1973. In those same years, the Western European economy practically tripled, while that of the US (already dominant in 1945 and untouched by the war) practically doubled. Japan's economy was even more astounding, growing more than sixfold. Already by the 1964 Olympics held in Tokyo, Japan had begun to look not like the war-ravaged, poverty-stricken state of 1945, but a dynamic member of the global capitalist order. Ten years later, Japan could boast the same aggregate standard of living as Western Europe.

The global economy not only grew at an amazing rate, but the benefits of that growth were more evenly distributed both between and within countries than any period of human history. Thanks to these changes, daily life for hundreds of millions of human beings was transformed by the increasing ubiquity of indoor plumbing,

CENTENO TEXT (M2031).indd 30 5/10/09 14:18:04

electricity, consumer goods, and basic public health (Hobsbwan 1994; Judt 2005). Life expectancy grew by a decade (in the richer countries), or even two decades in some of the poorest regions.

The economies of Eastern Europe and the USSR tripled, keeping pace with much of the West. Yet the Socialist world emphasized a form of growth closer to a nineteenth-century model than one required by the post-war era and, despite its gains, saw the gap in productivity increase. For example, while the USSR's productivity per hour doubled, that of West Germany quadrupled.[5] The socialist world's expansion outside of Europe was an economic disaster. After some initial success, the Chinese economy was destroyed by a variety of Maoist experiments and remained marginal to the global economy, while Cuba represented a considerable drain on Soviet resources during this period.

Developing countries also experienced a post-war boom. Latin American economies tripled in real terms during these years, with particularly phenomenal results in Mexico and Brazil. Africa increased its national income by 270 percent (although its share of global production dropped). The Indian economy more than doubled, and that of the rest of Asia (excluding China and Japan) quadrupled.

Despite its apparent success, this new mixed capitalist system ultimately proved to be too complex and expensive to manage. First, due to its increasing budget and balance of payments deficits, the US found it impossible to maintain the dollar as the unshakable foundation for global trade; the US government had issued more dollars into circulation than could be redeemed by all of its gold. In the rest of the developed world, the costs of paying for the post-war welfare state were ever escalating. The integration of the global system had produced many winners, but also losers who sought to rebalance the economic scales. Labor perceived that the global capitalist surge had increasingly benefited those with money. The apparently non-zero-sum relationship between international integration and domestic benefit had broken down. The general increase in commodity prices in the 1970s and the need to recycle the dollars that now flowed ever faster across the planet encouraged greater integration, but also demonstrated its fragility.

CENTENO TEXT (M2031).indd 31 5/10/09 14:18:04

This became clear with the unprecedented period of "stagflation," economic decline or stasis accompanied by increasing inflation, during much of the 1970s and early 1980s.

After significant policy shifts discussed in later chapters, global capitalism resolved the predicament of inflation. The accompanying policy changes generated a series of crises both in parts of the developed world and in large sections of the developing world. The socialist and developing worlds responded to it with a borrowing binge but, by the late 1980s, the debt overhangs were leading to severe policy constraints. The developed world experienced a general rollback on many of the welfare measures created during the previous thirty years and a general decline in the relative position of labor.

By the mid-1980s, the wealthier economies were able to restart their economies and these registered a growth of roughly 25 percent during that decade. For Latin America, however, the 1980s was literally a "lost decade" in which there was less wealth at the end than at the beginning. In Africa, these years marked the end of the first wave of economic success and the beginning of continental decline. For the socialist bloc, the 1980s made their economic failures too obvious to ignore and, once the political willingness to support them eroded, the economies collapsed. The experience of some Asian countries, however, was quite different: Hong Kong grew by 68 percent, Singapore by 57 percent, Taiwan by 69 percent, and Thailand by 82 percent during that same period. The star was certainly Korea, whose GDP more than doubled. To give some sense of the shift in global hierarchy, consider that, in 1968, when it hosted the Olympic Games, Mexico's economy was three times that of South Korea's on a per capita basis. Twenty years later, after import substitution, an oil boom, with a debt crisis on the one hand, and export-led growth on the other, the Mexican economy was one half as rich as that of Olympic host Korea!

These changes, both the relative decline of Latin America, Africa, and the socialist bloc, and the spectacular rise of parts of Asia, would help redefine the world in the 1990s. The reasons for them have been analyzed and debated for the past twenty years. We may identify four leading sets of explanations. For the first

CENTENO TEXT (M2031).indd 32 5/10/09 14:18:04

category, what we may call the culturalists, what mattered was a predisposition to work and entrepreneurship. The "victory" of the East Asian dragons was, at least in part, due to a different set of values and predispositions, which promoted, for example, greater savings (Harrison and Huntington 2001). A second school argued for the centrality of trade policy. The Asian countries had sought an export-led development in contrast with the "import substitution" policies of Latin America and Africa (Haggard 1990).[6] A third set of explanations focused on the role of the state, arguing that those countries that had created effective policies and promoted them successfully had done best during this period (Wade 2003; Evans 1995). Most recently, a more sophisticated approach has developed which takes into account the best of what these theories have to offer (Kohli forthcoming). The explanation for the East Asia success begins with a more effective state and it involves trade. But the key step was specific state policies to support higher value-added industries (rather than simple extraction from the ground or minimal processing), which could create new economic niches. The critical element is a combination of economic and market logic (produce something that others want and will pay for) with a political one (create the policy space necessary for these developments).

The process of institutional adjustment during these years was also accompanied by a burst of technological change arguably as important as the Industrial Revolution. The computer not only allowed for the managerial complexity required by the global factory but, with the Internet, vastly expanded the consumer possibilities of a significant part of the global population. The exogenous technological component in the rise of the latest version of global capitalism cannot be underestimated. In the US, for example, productivity practically doubled during this period. Some of this had to do with more pro-business and anti-labor policies on the part of the government, but the role of the computer in transforming the economy cannot be debated. On the global stage, the computing revolution allowed for a level of amalgamation and integration never before seen.

The greater integration of capitalism came with the expected

CENTENO TEXT (M2031).indd 33 5/10/09 14:18:04

complexities and vulnerability. Crises that previously would have been limited to a single country could now spread like the ubiquitous viruses that haunted the World Wide Web. Mexico in 1994, Asia in 1997, Russia in 1998, the Y2K panic, the dot-com bubble, the US sub-prime mortgage fiasco, all represented significant threats to the global system, leading to perpetual analyses of crises and the ever present specter of 1929. In 2007–8, an apparent "perfect storm" involving unstable commodity prices, ever worsening credit markets, and a general ambiance of uncertainty, led to talk of a collapse of the global liberal order.

Capitalism and globalization

At the root of these dilemmas is the fact that the world is still becoming used to capitalism, and it, in turn, is adjusting to being a global phenomenon. While the roots of capitalism go back to the expansion of Northwest Europe in the sixteenth and seventeenth centuries, it is only in the past few decades that we can speak of a truly global capitalist order. The nineteenth-century global system of commodities and consumer products was only capitalist in some places; in the rest, it relied more on imperial force. Nor were vast parts of the global population as closely linked to the capitalist economy, as is the case today. Even during the years of post-war growth, significant parts of the world remained outside of the capitalist orbit either because of poverty or ideology. Today, a vastly larger number of societies interact with the world system directly through the market and not through imperial intermediaries. For all intents and purposes, we are all in the same market and in uncharted terrain.

Globalization is a much more complicated process than just capitalism gone global as it involves cultural and demographic flows (and, as increasingly obvious, climate interdependence). One of the key questions for any discussion of contemporary capitalism is its relationship to the expansion of global integration. Could one exist without the other? Which is the primal causal element? How do the different institutional forms of capitalism relate to global integration?

CENTENO TEXT (M2031).indd 34 5/10/09 14:18:04

Globalization is not new; the very peopling of the planet beginning with the migration out of Africa was arguably the most consequential form of it and this began 100 millennia ago. Transregional and even trans-hemispheric trade is also not new; nor are massive migrations. Even the cultural imperialism of American mass media (another favourite villain of globalization) is relatively insignificant compared to prior waves of religious conquest and conversion, and linguistic domination. What is new, and the reason why global capitalism is so novel, is the level of integration of economies, and the speed and force with which previously isolated events cross borders. To borrow from epidemiology, infections can no longer be isolated; the global body of capitalism can less and less afford weak parts.

The rise and rooting of market logics in the organization of social life has created unimaginable wealth in the aggregate. But capitalism's unrelenting pursuit of material bounty has elicited a range of social and environmental strains – Thomas Malthus (1986[1798]) may ultimately be right in asserting that exponential growth cannot be sustained. The creation of media, largely established to perpetuate the consumption upon which the capitalist system depends, has also made it much more possible for those on the bottom to become aware of how the top lives, generating discontent and outright opposition against the system. The capitalist system's growth may have proceeded to the point that its size, intricacy, and interconnectedness make it less controllable, and in turn more volatile and resistant to oversight.

It is in this respect that the concept of complexity described in the introduction becomes most relevant. Recall that, certainly since 1945 and less explicitly since the nineteenth century, global capitalism has functioned with some form of state oversight and support, be it first British, or, later, American. It is harder to identify a global capitalist "policeman" for the post-1990 period. At first the US seemed willing and able to undertake this role as in the Mexico crisis of 1994–5, but the control and coordinating capacities of the global structure became more frayed. More importantly, the nature of the system was transformed by the technological revolution and the subsequent global integration.

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The complexity included the simple addition of ever more actors. But it was the multiplication of interactions and their mutual interdependence that created the possibility of "emergent" properties and consequences that no one could predict or protect against. This was made clear by the "domino effect" of the financial crisis of 2008 when events in an industry on one side of the world could lead to disasters for others thousand of miles away.

The end of global capitalism?

Writing in 2009, one has to wonder how relevant all the preceding considerations will be by 2010. Will capitalism come to an end? Will the global economy collapse? The news of the past year has been universally disastrous. There is no question that this represents the worst economic crisis since the Great Depression of the 1930s. First, the financial industry was only saved from total meltdown by a very expensive intervention. Nevertheless, the IMF estimated that global financial institutions would have to write off up to $2.7 *trillion* dollars in US-originated assets alone. Add to these smaller disasters, such as the Icelandic debacle and the collapse of housing markets all over the world, and the figure is much higher. These losses led to a credit crunch, which squeezed the other sectors of the economy. Global industrial production was down by 10 percent and sales and overall confidence plummeted. For the first time in the post-war era, stock market losses (of close to 50 percent in some markets) were accompanied by dramatic falls in consumption. The automobile industry (arguably still the major manufacturing engine of the global economy) suffered enormously: 9 percent and 13 percent global declines in 2008 and 2009, and 18 percent and 24 percent respectively in the United States. Overall, global GDP declined by around 6 percent in the last part of 2008 and again by the same amount in the first quarter of 2009.[7]

Such reports make it difficult to understand what exactly has happened and what its consequences might be. On the one hand, how can there be any money left? How can any political economy lose so much and still be a viable model? On the other hand, the

CENTENO TEXT (M2031).indd 36 5/10/09 14:18:04

very fact that so much existed to be lost in the first place, and that although it is gone the world still functions, points to the incredible productive power and resiliency of capitalism. It is also worthwhile to remember that a much less sophisticated version of capitalism not only survived seventy-five years of ideological conflict with various competitors, but also a depression much deeper than anything we have seen so far.

While capitalism is in a crisis, no systemic alternatives to what is described in the following pages exist other than a return to autarchy. It is possible that some later book will recall the last two decades as the "Glorious Twenty" before a prolonged period of difficult realignment. Yet this does not mean that the overall structure will be transformed. That serious adjustments will be necessary is obvious, that the growth curve will change slope probable, but that we are on the verge of yet another undefined "Great Transformation" unmaking the past 200 years is unlikely (except perhaps for the reasons discussed in chapter 7 and generally unrelated to the housing and banking crises). Global capitalism remains the system we need to understand in order to understand the world.

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