

Economic Downturns, Crises and Hegemonic Transitions: What is the Relevance of Economic Downturns and Crises for Hegemonic Transitions? An Overview of Different Perspectives

Lorenzo Fusaro

Introduction

The topic of "hegemonic transitions" has attracted much attention in recent years as the rate of economic growth in East Asia surpassed by far the one in the West. Based on the United States' declining shares in global output, trade and investments at the expense of East Asia, the claim is that the centre of growth in the world economy is shifting towards the latter part of the globe, towards China in particular¹.

Some Nostradamuses already envisage a "Pax Sinica" where "The renminbi will displace the dollar as the world's reserve currency; Shanghai will overshadow New York and London as the centre of finance; [...] global citizens will use Mandarin as much as, if not more than, English; the thoughts of Confucius will become as familiar as those of Plato."²

The latest US National Intelligence Council (NIC) report, published in November 2008 is more cautious. However it notes a "historical transfer of relative wealth and economic power from the West to East" whereby the so called BRICS will "collectively match the original G-7's share of global GDP

¹ According to World Bank data, annual GDP growth between 1990 and 2007 averaged 2.8 per cent in the United States as opposed to 8.4 per cent in East Asia (China: 10%). The United States' Share of World Output declined from 30 per cent in the year 2000 to 25 per cent in 2007, while East Asia's share rose from 5.3 per cent to 8 per cent, whereby China's Share of World Output passed from 3.1 per cent to 5.8 per cent. A similar trend can be observed for the World Share of Fixed Capital Investments: between 2000 and 2007 the United States experienced a decline from 28 to 23.5 per cent. Instead East Asia's share increased from 7.6 to 12.8 per cent, with China showing a rise from 5.9 to 10.8 per cent. See also the appendix for a graphical representation.

² *The Economist*, 11 July 2009, pp. 80-81.

by 2040 – 2050". China, projected to become the second biggest economy by 2025, is again seen as the biggest challenger.³

The current economic crisis, by far the deepest since the Great Depression, is said to speeding up the above tendencies. As the NIC report writes, the crisis is likely to "accelerat[e] many ongoing trends"⁴. Or, as the Financial Times reported many US officials believe that "the economic crisis has tilted the balance of power towards China."⁵ The same argument has been made in Foreign Affairs where, for example Roger C. Altman contends that "no country will benefit economically from the financial crisis over the coming year, but a few states – most notably China – will achieve a stronger relative global position."⁶

But notably the question of hegemonic transitions and the relevance of the present economic downturn has not only been debated in the mainstream and by the US National Intelligence Unit. Hence for example Giovanni Arrighi argues that there are good reasons to believe that there is an ongoing hegemonic transition from the United States towards China, whereby the present crisis is claimed to confirm his suggestion⁷. This perspective has been also adopted by many intellectuals of "the left", in Italy, Germany and elsewhere⁸.

The fact that hegemonic transitions are, prima facie, associated with economic crises should not surprise. Despite the many differences, there is general agreement in the literature in conceiving the United Provinces, the British Empire and the United States as hegemonic powers. And interestingly the transition from one hegemonic power to the next has indeed been accompanied by deep and long lasting economic downturns: a system wide recession after 1650 until 1730 that marks the beginning of the transition from Dutch to British hegemony; another deep depression in the last quarter of the 19th century which culminated in the Great Depression of the 1930s also happens to take place during the period of transition between British and US hegemony. Braudel in individuating the crisis that started in the 1970s as one of those deep crises usually associated with "hegemonic transitions", rhetorically asked "Is this a short term conjunctural crisis, as

³ *US National Intelligence Council (NIC) Report*, 2008, p.6. Accessible at: http://www.dni.gov/nic/NIC_2025_project.html.

⁴ *Ibid*, p. 12.

⁵ David Pilling, "Washington risks taking China too seriously", *Financial Times*. (30.8.2009).

⁶ Roger Altman, "The Great Crash", *Foreign Affairs* (No.88, 2009), p. 3.

⁷ See Giovanni Arrighi, *Adam Smith in Beijing: lineages of the twenty-first century* (London: Verso, 2008).

⁸ See Alfonso Giani, *Goodbye Liberismo* (Ponte alle Grazie, 2009) or Federico Rampini, *Il Secolo Cinese* (Mondadori, 2006).

most economists seem to think? Or have we had the rare and unenviable privilege of seeing with our own eyes the century begin its downward turn?"⁹

Following the title of this conference "The Crisis, Interdisciplinarity and Alternatives" this paper will restrict the discussion on the relation between economic crises and hegemonic transitions presenting an overview of some of the literature on this subject matter – it will not present an analysis of the present situation based on a given framework. In order to carry out this task I will firstly look at different ways in which hegemony and hegemonic transitions are conceptualised. I will argue that there are three main strands of thought: Those who understand hegemony as being hegemony *over* the economic structure as a whole (Fernand Braudel and Giovanni Arrighi), secondly I will engage with those writers who see hegemony as hegemony *within* the economic structure (Immanuel Wallerstein, Gunder Frank and Barry Gills, hence World System theory). Finally I will look at Hegemony Stability Theory which is usually associated with Robert Gilpin and how this strand conceives hegemony and hegemonic transitions. In the second section of the paper I will expose how the above authors have analysed the relation between economic downturns and hegemonic transitions. After a discussion of the different positions, the third and final part of the paper sets out some possible research tasks starting from problematic issues in Arrighi's approach.

Different accounts on the meaning of hegemony and hegemonic transitions

The term "hegemony" is again en vogue, however what is meant by hegemony is not as clear as it may appear. The different authors discussed in this paper have different conceptions as well as definitions of hegemony, and, each understands "hegemonic transitions" differently. There are, I suggest, two major ways in which hegemony is conceptualised: on the one hand as 'hegemony *over* the system' and on the other hand as 'hegemony *within* the system'. Wallerstein uses the concept 'system' because he believes that the modern world system is an autonomous entity and hence not subjected to the influence of external factors. Its parts and the evolution of the system as a whole are hence explicable by internal dynamics¹⁰. Braudel, similarly, uses the concept of the "world-economy" and defines it as

⁹ Fernand Braudel, *The Perspective of the World: Civilisation and Capitalism*, Vol. 3 (London: Collins, 1984), p.80.

¹⁰ Immanuel Wallerstein, "The Three Instances of Hegemony in the History of the Capitalist World System", *International Journal of Comparative Sociology* (Vol. 24, No. 1-2, 1983), p.100.

a "fragment of the world, an autonomous section of the planet able to provide for most of its own needs, a section to which its internal links and exchanges certain organic unity."¹¹ Braudel and Arrighi, although working with different definitions of hegemony, understand the latter as embracing the whole structure of a capitalist world economy going beyond the characterisation of a hegemonic country as 'prima inter pares' due to its economic supremacy. Instead Wallerstein, Frank and Gills and hence proponents of World System Theory proper, use the term hegemony when describing a particular status of states or social groups *within* the economic structure here mainly based on economic supremacy. Hegemony Stability Theory, which represents an eclectic approach including elements of both, will be instead treated separately.

Hegemony over the system

When looking at Braudel's conceptualisation of hegemony and hegemonic transitions one needs to bear in mind that he did not present a coherent theoretical framework. The concepts discussed here are hence mostly inferred from his historical narrative and need to be seen as embryonic. It is in fact Arrighi, who has been influenced by some insights in Braudel's narrative and has more consistently developed them.

In the three volumes of his seminal work "Civilisation and Capitalism 15th to 18th Century" the great historian Fernand Braudel deals with the history and the development of Capitalism from the 15th to the 18th century. As Tilly has observed, Braudel claims that "a single capital-concentrating metropolis tends to emerge as the dominant centre of any capitalist world-economy."¹² It is in the third volume of his trilogy "Capitalism and Civilisation" where he proposes an historical narrative which deals with the succession of such leading cities, without using, however, the concept of "hegemony" explicitly, which following Braudel can be a substitute for "leadership".

What becomes clear when looking at Braudel's historical narrative, in particular on Amsterdam, which he mostly prefers to take as an example, is that the leading city or hegemonic city is not just prima inter pares. Rather, the hegemonic city is the centre that controls the rest of the economy and around which economic activities turn, whereby "there is only room for one centre at a time in the world-economy"¹³ as he puts it. When examining the experience of the Dutch city Braudel thus argues that it could be compared

¹¹ Braudel, op. cit, in note 9, pp. 21-22.

¹² Charles Tilly, "Broad, Broader ... Braudel", *CRSO Working Paper* (No. 219, 1980), p.6.

¹³ Braudel, op. cit, in note 9, p. 33.

to a "central control tower"¹⁴ and hence conceives Amsterdam and the subsequent hegemonic cities as 'superstructures' connected to lesser economies which are subordinated to them and which "face towards one point in the centre."¹⁵ There are, in addition, specific characteristics in the relation between the 'central control tower' or "core" and the lesser economies or "periphery" that enable the city at the centre of the world-economy to maintain its status. This relation is characterised by exploitation and a transfer of surplus, which Braudel explains as being the outcome of 'unequal exchange' which he derives from a reformulation of Von Thuenen's Zones¹⁶.

According to Braudel a dominant city uses 'weapons of domination', as he calls them, in order to maintain its privileged position. Such weapons can be shipping, trade, industry credit and political power or violence. Amsterdam and London he argues, "possessed the whole panoply of means of economic power" which means that these two cities subsequently "controlled everything, from shipping to commercial and industrial expansion, as well as the whole range of credit"¹⁷.

In light of Braudel's historical analysis his understanding of hegemonic transitions is more than just the "rise" and "fall" of hegemonic cities within the world-economy. Because of the central role given to cities which form the centre of a world-economy, the history of these cities tells us a lot about the development of the related world-economies. Thus Braudel argues: "the outline of the history of these successive dominant cities [...] provides the clue to the development of their underlying world-economies"¹⁸. His suggestion is therefore that the transition from one dominant city to another dominant city is an expression of the shift from a

¹⁴ Ibid, p. 248.

¹⁵ Ibid, p. 36.

¹⁶ Von Thuenen's Zones do describe different concentric zones or circles around a city in which different economic activities prevail. Importantly, the author underlines that some activities yield more profits than others. For example, production in agriculture will be less profitable than production in manufacturing. But Braudel expands on this analysis by making an important and significant qualification. While Von Thuenen recognises inequality between the population living in the different circles or zones, he does not give an explanation for it. In Braudel's eyes the explanation is more than clear and is based on unequal exchange: "The town-country exchange which creates the elementary circulation of the economic body is a good example, pace Adam Smith, of unequal exchange." The dominant economy can hence exploit subordinate economies by concentrating in more profitable activities compared to subordinate economies concentrating on less profitable activities. As Braudel puts it, the "dominant economy can exploit subordinate economies, while not soiling its own hands with less profitable activities or types of production." Ibid, pp. 39, 248.

¹⁷ Ibid, p. 35.

¹⁸ Ibid.

city with an underlying world-economy to another city with an underlying world-economy, which will take a different shape from the former.

As I shall show at this juncture Giovanni Arrighi comes to a similar conclusion regarding hegemonic transitions given his understanding of hegemony. Differently from Braudel (and other authors), in "The Long 20th Century", Giovanni Arrighi provides a much more elaborate and cogent definition of hegemony. The latter is derived from the Italian revolutionary Antonio Gramsci, who was inspired by the writings of Machiavelli¹⁹. Contrary to the common sense treatment of the word "hegemony" as leadership or domination, Arrighi understands it as something more than leadership or domination tout court. This more sophisticated analysis of hegemony relies on Gramsci's differentiation between power as "domination" and power as "intellectual and moral leadership". Similarly, Arrighi recalls, Machiavelli understood power as the "combination of consent and coercion."²⁰ Consequently Arrighi's interpretation is that dominance rests primarily on coercion, while hegemony is understood as the additional power ('intellectual and moral leadership') which enables a dominant group to present its solutions as being representative of the general interest.

When applying the concept of hegemony to *interstate* relations, then hegemony means the ability of a particular state to either "credibly claim to be the motor force of a general expansion" or "because it can credibly claim that the expansion of its power relative to some or even all other states is in the general interest of the subjects of all states."²¹ According to Arrighi a situation in which a particular state is able to become world hegemonic in the above sense, arises from the system's need for order. This is particularly the case when the system is 'governed' by chaos or, as the Italian author calls it, "systemic chaos"²². If a state is able to "satisfy the system wide demand for order" it has the chance to become world hegemonic. Through this process the system enters a state of "ordered anarchies" or "anarchic orders", which Arrighi defines as a system which is more or less organised, however, without a state-like central rule.

¹⁹ For a further analysis of hegemony based on Gramsci, see Robert Cox, "Gramsci, Hegemony and International Relations: An Essay in Method", *Millennium: Journal of International Studies* (Vol. 12, No.1, 1983).

²⁰ Giovanni Arrighi, *The Long 20th Century: Money, Power and the Origins of our Times* (London: Verso, 1994), p. 28.

²¹ *Ibid*, p. 30.

²² The latter is characterised by the complete lack of organisation and arises when conflicts escalate beyond a certain limit. In addition systemic chaos occurs when either new rules are imposed upon the system or when they grew within the system without altering it.

More concretely, when looking at Arrighi's historical and theoretical narrative in the "Long 20th century" one can notice the hegemonic state's ability to act as "motor force" of capitalist expansion during a certain period of time. In particular, as I will explain in greater detail when looking at Arrighi's account on crises below, each hegemonic state leads a system wide and hence "Systemic Cycle of Accumulation" composed of a "rise, full expansion, and eventual supersession"²³ of a particular regime of accumulation.

Arrighi recognises four different hegemonic states, each as "motor force" of capitalist expansion from the late Middle Ages or Renaissance: Genoa & Imperial Spain combined, the United Provinces, Great Britain and the United States. Similar to Braudel with hegemonic cities and their underlying world-economies, he underlines that it is wrong to understand hegemonies as simply rising and falling. On the contrary new hegemonic powers will reshape and restructure the system. Arrighi explains this point as follows: "world hegemonies have not "risen" and "declined" in a world system that expanded independently on the basis of an invariant structure. Rather, the modern system itself has been formed by, and has expanded on the basis of, recurrent fundamental restructuring led and governed by successive hegemonic states."²⁴

Both Braudel and Arrighi hence conceive a particular capitalist agency (a city for Braudel and a state for Arrighi) of being hegemonic over the system as a whole, whereby Arrighi's conceptualisation is far more developed compared to Braudel's. As I shall show in what follows, World System Theorists as Wallerstein, Frank and Gills take a different perspective. In order to understand what they conceive as being a world system and where they place 'hegemony' within it, it is necessary to look at some basic concepts in their framework.

Hegemony within the system

Wallerstein describes the world-economy as a system driven by the *ceaseless or "endless" accumulation of capital*.²⁵ Differently from other social systems, in the capitalist world economy "the endless accumulation of capital has been the economic objective or 'law' that has governed or prevailed in fundamental economic activity."²⁶ The system has a *structure* defined as the "axial social division of labour" whose geographic reach

²³ Arrighi, op. cit. in note 20, p. 214.

²⁴ Ibid. pp. 30-31.

²⁵ Immanuel Wallerstein, *Historical Capitalism* (London: Verso, 1996), p. 48.

²⁶ Ibid, p. 18.

corresponds to the boundaries of the world-economy. The states are part of an interstate network, also called interstate system that forms the superstructure of the capitalist world-economy. One critical feature characteristic of the interstate system is the *hierarchy of power*. Accordingly the "degree of power given state machineries have" differs from state to state. In Wallerstein's view the degree of power can be measured by the state's "effective capacities over time to further the concentration of accumulated capital within their frontiers as against those rival states."²⁷ Wallerstein calls those states at the top of the hierarchy 'core', while those at the bottom 'periphery.' In between stands the 'semi-periphery'. The "*hierarchy of power*" between states as defined above is eventually based on a "*hierarchical division of labour*" and the resulting praxis of unequal exchange between core and periphery within the capitalist world-economy²⁸.

The relations between the sovereign states in the interstate system is characterised by the "balance of power" that ensures that no state can transform the world-economy in a world-empire. Moreover, as he puts it in "Historical Capitalism" the structure of the economy and the interests of the major accumulators are "fundamentally opposed to a transformation of the world-economy into a world-empire."²⁹ According to Wallerstein transformations of world-economies into world-empires were, however, common for previous world-economies³⁰.

But what single states can achieve is hegemony within the interstate system which enables them to increase their share of the world wide produced surplus – a moment Wallerstein describes as "sweet but brief"³¹. Hegemony is based on the ability of a particular state, or more precisely that of enterprises in a particular state, to be more competitive than their rivals *simultaneously in agro-industrial production, commerce and finance*. According to Wallerstein hegemony enables states that attain it to impose their "wishes" and "rules" within the interstate system. As he writes in "The

²⁷ Ibid, p. 56.

²⁸ Unequal exchange, according to Wallerstein, describes an exchange of two equally priced items, which do not contain an equal amount of labour input. Being able to exchange one item with fewer labour input in return for an item with more labour input is, obviously, profitable: the process permits the transfer of surplus from one party to the other, or, from one area of the world economy to the other. What enables unequal exchange economically to take place is, according to Wallerstein, the scarcity of the item with fewer labour inputs for which more abundant products with more labour inputs are exchanged. The starting point for unequal exchange is hence "any real differential in the market" or "artificial scarcities created manu militaris." Wallerstein, op. cit. in note 25, p. 31.

²⁹ Ibid, p. 57.

³⁰ According to Wallerstein the British Empire for instance was an empire within the world-economy and not a world-empire.

³¹ Wallerstein, op. cit. in note 10, p. 107.

Three Instances of Hegemony" (1983): "Hegemony in the interstate system refers to that situation in which the ongoing rivalry between the so-called "great powers" is unbalanced that one power can largely impose its rules and its wishes [...] on the economic, political, military, diplomatic, and even cultural arenas."³² Hegemonic states have hence enough power to change the rules of the interstate system putting their interests first "and encrust the greater edge and protect it against erosion."³³.

But different from Braudel and Arrighi, in Wallerstein's analysis hegemonic transitions account for a change at the top of the hierarchy of the interstate system, which they will try to modify to their advantages. Hegemonic transitions hence occur within the same structure or system, which is different from a change of the system or a change of the structure itself. What eventually seems to be truly hegemonic over the system in Wallerstein's framework is the system's overall drive for 'capital accumulation'.

Gunter Frank and Barry Gills share to a great extent Wallerstein's analysis. Their persuasion is so large that they write in "The World System: 500 years or 5000?": "We believe that the existence of the same world system in which we live stretches back at least 5000 years."³⁴ What they however underline is that the world economy is characterised by "interpenetrating accumulation". By this they mean that different elites, both state and private elites from the core and the periphery, hence located in different political areas or 'societies' within the world system share the surplus extracted from the producing classes in the various areas. "Elites" they argue "participate in each others' system of exploitation vis-à-vis the producing classes."³⁵

This in turn influences their understanding of hegemony. Hence they define the latter as a "hierarchical structure of the accumulation of surplus among political entities, and their constituent classes, mediated by force."³⁶ The 'ruling/propertied classes' at the top of the hierarchy can profit from a "privileged share of the surplus" which they secure through political and economic power. Consequently they conceive hegemony as a "means to wealth" or in other order words as "a means to accumulation."³⁷ Following the conception of the world-system characterised by "interpenetrating

³² Ibid, p. 101.

³³ Ibid, p. 106.

³⁴ Andre Gunder Frank and Barry K. Gills, *The World System, 500 years or 5000?* (London: Routledge, 1996), p.3.

³⁵ Ibid, p. 93.

³⁶ Ibid, p. 100.

³⁷ Ibid, p. 146.

accumulation”, the two authors recognise the existence of different regional hegemonic powers which interact with each other on a world system scale. This interaction is characterised by a combination of “competition, cooperation, and subordination”. What emerges from this is usually a *hegemonic coalition* made of both, elite classes of the core (or “centre”) and elite classes of the periphery which “share hegemony”. For instance, Gills understands the so called Pax Americana as “a complex coalition of classes and states in a shared global hegemony” rather than seeing it as “overwhelming power of a single state.”³⁸

Even while considering world system hegemony as a coalition that shares hegemony, they nevertheless recognise a certain hierarchy within it. Accordingly they write that “the primary hegemonic centre of accumulation and political power subordinates secondary centres and their respective zones of production and accumulation.”³⁹ In some particular instances in world history the two authors claim that super hegemons or ‘hegemons among hegemons’ emerge. By this they mean that “one zone of the world system and its constituent ruling and propertied classes are able to accumulate surplus more effectively and concentrate accumulation at the expense of other zones.”⁴⁰

The concept of hegemonic transitions is different in Frank and Gills, where it entails a reorganisation of a complex hegemonic hierarchy made of different states and social groups.

Hegemony Stability Theory

If we were we to accept Arrighi’s definition of hegemony and tried to find an example in practice, then looking at Hegemony Stability Theory would be a good point to start from. Here in fact as I shall show in what follows a hegemonic state is said to be necessary for the functioning of the world economy, hence indeed reflecting Arrighi’s proposition that a hegemonic state must “*credibly* claim to be the motor force of a general expansion”⁴¹. Although Robert Gilpin is usually taken as the main academic associated with Hegemony Stability Theory, the latter has its origins in Kindleberger’s work on the Great Depression. In “The World in Depression 1929-39” Kindleberger contends that the Great Depression occurred due to the lack of a ‘stabiliser’ necessary for the smooth working of the world economy. As the

³⁸ Ibid, p. 121.

³⁹ Ibid, p. 100.

⁴⁰ Ibid, p. 103.

⁴¹ Arrighi, op. cit. in note 20, p.30.

author puts it "for the world economy to be stabilised, there has to be a stabiliser – one stabiliser."⁴²

Following these insights Gilpin in "The Political Economy of International Relations" (1987) contends that the construction and the functioning of a liberal world economy necessitate the existence of a hegemonic power. As he writes "an open and liberal world economy requires the existence of a hegemonic or dominant power"⁴³ that provides the necessary public goods which enable the international economy to function. In the economic theory the author refers to, goods are said to be public if the consumption of such goods by one actor does not prevent the consumption of the same good by any other actor. 'A liberal and open trading regime', security and a stable international monetary system are, following proponents of hegemony stability theory, examples of such public goods⁴⁴.

Here, as in Wallerstein, a hegemonic power attains a leading role in the world economy thanks to its economic supremacy characterised by the "control of financial capital, particular technologies, and natural resources"⁴⁵. This rests first and foremost on the ability of a hegemonic country to witness the ascent of new leading sectors within its territory – a process that will be discussed below when looking at their attitudes towards crises and downturns. According to Gilpin a hegemon does not compel other states to follow its rules and for this reason the 'lesser states' must share its interests, especially those related to the creation of a liberal world economy. It is "ideological hegemony" or "a considerable degree of ideological consensus" that helps the hegemonic power to obtain the support of other states⁴⁶. For Schwartz, who has developed a friendly critique of Hegemony Stability Theory in "States versus Markets" (1994), the most important ingredient for attaining hegemony, is the size of the hegemon's domestic market, which

⁴² Charles Kindleberger, *The World in Depression 1929-1939* (California: University of California Press, 1973), p.304.

⁴³ Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), p.72.

⁴⁴ Contrary to Hegemony Stability Theory, Robert Keohane in "*After hegemony: cooperation and discord in the world political economy*" (Princeton, N.J.: Princeton University Press, 1984) shows that cooperation between states, which especially includes, among other issues, the management of the world economy, can take place without a hegemonic power. He reaches this conclusion by conceptualising the behaviour of states as determined by rational choice. Differently from Gilpin and the realist school in fact, the author shows that rational choice evaluations adopted by states do not have to lead to conflict or non-cooperation, but can also lead to "cooperation among egoists".

⁴⁵ Gilpin, op. cit. in note 43, p. 76.

⁴⁶ Ibid, p. 73.

giving hegemonised countries the possibility to export, enables it to buy off their alliance⁴⁷.

The 'earlier' or 'realist' Gilpin of "War and Change in World Politics" (1981) on the other hand conceptualises hegemony differently. For him states give life to international "social, political and economic arrangements" as a means to pursue some sets of interests, in particular the increase of wealth and power. This is the international system. Gilpin argues in this context that hegemony has 'displaced' empire and has become the modern means for states to acquire additional wealth and power. While for empires this could be achieved through engaging in territorial conquest, through the rise of the market economy and the modern capitalist social formation, the 'mode of expansion' changed: "in the modern era, expansion by means of the world market economy and extension of political influence have largely displaced empire and territorial expansion as a means of acquiring wealth."⁴⁸ The reason for the shift from "territorial" to "economic and political" expansion or the shift from empire to hegemony is due to the fact that the accumulation of wealth in a capitalist world economy can be best secured through trade (hegemony) rather than through territorial conquest (empire).

Hegemonic transitions in the case of Hegemony Stability Theory resemble to a great extent the propositions put forward by Braudel and Arrighi. Here also hegemonic powers do not rise and fall within the same economic structure. Rather, the collapse of hegemony brings with it the collapse of the (liberal) world economy itself. Also for the 'earlier' Gilpin hegemonic transitions entail the change of the system.

Having presented different meanings of hegemony and hegemonic transitions, the next section will look at the relation between economic downturns, crises and hegemonic transitions.

Economic downturns, crises and hegemonic transitions

What characterises most authors that have devoted major studies to the subject of "hegemony" is their adherence to various long cycle theories. When looking at the relation between economic downturns, crises and hegemonic transitions it is hence the relation between the occurrence of crises in long cycles and hegemonic transition that stands at centre of the discussion. As Braudel reminds us, cycles theories look especially at

⁴⁷ Herman Schwartz, *States vs. Markets: History, Geography and the Development of the International Political Economy* (Basingstoke: Macmillan Press, 1994), p.77.

⁴⁸ Robert Gilpin, *War and Change in World Politics* (University Press, Cambridge, 1981), p.138

periodical variations in prices, recognising a rise, a peak and a decline in prices over a period of time. In most cycles theories rising prices are accompanied by increasing production and an upward trend in the overall economy, while, on the contrary, declining prices are accompanied by a decline in production and hence a downturn. The "Kitchin cycle" lasts about three or four years, the "Juglar" six to eight years, the "Labrousse" some ten years. More discussed are the "Kuznets" and especially the "Kondratieff" cycles, which develop over a time span of circa 20 and 50 years respectively and are divided into "A-phases" (economic growth) and "B-phases" (economic decline)⁴⁹. While those who conceptualise hegemony as "hegemony within the system" share the 'traditional' Kondratieff cycles, those who understand hegemony as "hegemony over the system" have developed, as will be clear below, alternative notions on long-term economic fluctuations.

The role of economic downturns, crises on transitions of "hegemony over the system"

For Braudel what best describes long term variations in the economy is the so called secular trend that stretches over a longer period of time compared to 'traditional' long cycles. An upward trend is here conceived as a period in which various elements of a world-economy prosper at the same time. It is, moreover, "conservative", because it maintains the status quo and is favourable to all economies. In a downward trend, instead, "healthy economies are now found only at the centre of the world economy. There is a general withdrawal and concentration around a single centre; states become touchy and aggressive."⁵⁰ Crises are particularly important for Braudel since they depict the decline of an existing structure *and* the rise of a new structure. As the French historian puts it, crises "mark the beginning of a process of deconstruction: one coherent world-system which has developed at a leisurely pace is going into or completing its decline, while another system is being born amid such hesitation and delay."⁵¹

⁴⁹ For a good overview on cycles theories see Joshua Goldstein, *Long Cycles: Prosperity and War in the Modern Age* (New Haven: Yale University Press, 1988).

⁵⁰ Braudel, op. cit. in note 9, p. 86.

⁵¹ Ibid. p. 85. In practice Braudel recognises three turning points. The first turning point of 1350, Braudel argues, represented a shift from a balance between northern and southern Europe in favour of the latter. In this process the primacy of Venice as the new centre of the world-economy was created. The year 1650, the second vantage point, captures the collapse of the "Mediterranean system". It is, on the other hand, the moment in which Amsterdam establishes herself as the new centre of the world-economy. The third turning point, around 1817, characterizes a shift of "the economic order of the whole world from China to the Americas", with England, able to gain the leading position in it. Regarding the last and most recent turning point of 1974, Braudel as mentioned in the introduction rhetorically asks: "Is this a short term conjunctural crisis, as most economists seem to think? Or have we had the rare

Here economic downturns are hence indeed related to hegemonic transitions. However economic downturns merely coincide with the decline of *a* world-economy and the rise of an emergent new structure. Unfortunately in fact Braudel does not offer a coherent explanation that can account for the evolution of secular trends and the implication they have on hegemonic transitions. In fact he maintains that changes in the secular trend and hence its ups and downs, are due to exogenous factors. Hegemonic transitions are eventually caused by an "accumulation of accidents, breakdowns and distortions."⁵²

Nevertheless, his historical narrative, especially around the United Provinces, highlights some interesting aspects that may be responsible for crises. What seems to have jeopardised Amsterdam's hegemony over the world economy in the last part of the 17th century is the *relative decline in trade* that flew via Amsterdam on the one hand and on the other hand an *overaccumulation of capital* in respect to the hitherto established channels of investment and trade.⁵³ It is out of this context that the Dutch increasingly switched from 'the commodity' to 'banking', retreating from their commercial activities and increasingly devoting themselves to the realm of finance. Recognising the retreat from trade and an increasing financial expansion for Genoa and London as well, he hence comes to the following general conclusion: "At all events, every capitalist development of this order seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: it was a sign of autumn."⁵⁴

What Arrighi recognises as being particularly interesting, is Braudel's claim that "financial expansion" is a "symptom of maturity of a particular capitalist development."⁵⁵ Following this insight he takes his distance from the long cycles theories, even the 'secular trend'. For the latter theories, the author claims, are not particularly reliable: they are "empirical constructs of uncertain theoretical standing."⁵⁶ Based on Braudel's historical narrative thus Arrighi thus proposes an alternative analytical tool for analysing long term developments in the world economy, which he labels "Systemic Cycles of Accumulation."

and unenviable privilege of seeing with our own eyes the century begin its downward turn?" Braudel, op. cit. in note 9, p. 80.

⁵² Ibid, p. 85.

⁵³ Ibid, p. 245.

⁵⁴ Ibid, p. 246.

⁵⁵ Arrighi, op. cit. in note 20, p. 5.

⁵⁶ Ibid. p. 7.

Arrighi's major claim is that it is possible to recognise subsequent cycles each constituted by a phase of material expansion followed by a phase of financial expansion. In his view it is then possible to reformulate Marx's formula of capital (M-C-M'). While Marx's formula depicts the logic of "individual capital investments", whereby Money (M) is used to buy Commodities (C) which will be sold again for Money (M') with $M' > M$, the same formula can be used to describe the "recurrent pattern of historical capitalism as world system"⁵⁷. Arrighi summarises this process as follows: "In phases of material expansion, money capital (m) sets in motion an increasing mass of commodities (c), including commoditized labour power and gifts of nature; and in phases of financial expansion, an expanded mass of money capital (m') sets itself free from its commodity form, and accumulation proceeds through financial deals (as in Marx's abridged formula mm')"⁵⁸.

Arrighi shows that the end of the cycle (CM') is characterised by a shift from 'cooperation' to competition among the different economic players. For example, regarding the Italian city-states during the late Middle Ages or Renaissance, he underlines how Milan, Florence, Venice and Genoa each specialised in specific market niches which were complementary to each other. It was textiles for Florence, metalworking for Milan, trade for Venice and Genoa, whereby the major 'trading partners' were different for the latter maritime cities. In this first period (M-C) complementary economic activities had beneficial results and enabled a higher degree of collective knowledge "of the world-economy where they operated" accompanied by an expansion of trade. However, as the process developed cooperation turned into fierce competition, "operating fraternity" turned into "a fight among hostile brothers"⁵⁹ as Arrighi, using Marx's figurative expression, argues. Similarly, the same process occurred later on for so-called 'nations' and subsequently for nation states. The reason for this change is to be found in the disproportion between the mass of capital and the existing possibilities to reinvest it without incurring a decrease in returns. As Arrighi observes "lasting disproportion arose between the mass of capital that sought investment in trade on the one side, and what could be so invested without precipitating a drastic reduction in returns to capital on the other"⁶⁰. Thus rather than sharing profits this period is about sharing losses, whereby a positive game turns into a zero sum game. As Arrighi underlines once this

⁵⁷ Ibid. p. 6

⁵⁸ Giovanni Arrighi, "Hegemony Unravelling II", *New Left Review* (No.33, 2005), p. 86.

⁵⁹ Arrighi, op. cit. in note 20, p. 90.

⁶⁰ Ibid, p. 90.

situation is reached a 'cut-throat competition' starts, where "capitalist organisations invade one another's spheres of operation"⁶¹

When dwelling on this turning point, it becomes clear that the turn from cooperation to competition is an aspect of other major forces at work. Relying partially on Marx, Arrighi shows that there is a contradiction between the "self expansion of capital" and the "material expansion of the world economy"⁶². The drive to increase profits via the development of the productive forces and via the increase in trade with the given social relations of production brings with it a tendency to drive down profits. As Arrighi puts it "the contradiction is that the material expansion of the world-economy was in all instances mere means in endeavours aimed primarily at increasing the value of capital and yet, over time, the expansion of trade and production tended to drive down the rate of profit and thereby curtail the value of capital."⁶³ What must be noted is that despite Arrighi's derivation of the tendency of the rate of profit to fall using Marxian categories, he actually prefers the explanation given by Adam Smith.

The switch from material expansion to financial expansion occurs when the leading actor in the world-economy, faced with declining returns in trade and increasing competition, starts to progressively allocate capital in "financial intermediation and speculation."⁶⁴ Following Gerhard Mensch, Arrighi calls the switch from material to financial expansion "*signal crisis*." Despite the underlying profitability crisis in trade related activities, during a financial expansion the leading actor can nevertheless enjoy what Arrighi calls a "wonderful moment of renewed wealth and power"⁶⁵, whereby, the author notes, only a minority will be able to benefit from it. Financial expansion is, however, problematic and brought to an end by a "*terminal crisis*"⁶⁶.

⁶¹ Ibid, p. 227.

⁶² Ibid, p. 222.

⁶³ Ibid.

⁶⁴ Ibid, p. 215.

⁶⁵ Ibid.

⁶⁶ Krishnendu Ray, "Crises, Crashes and Speculation: Hegemonic Cycles of Capitalist World-Economy and International Financial System", *Economic and Political Weekly* (30 July 1994), who shares Arrighi's analysis has put forward some reasons for why financial expansion have historically lead to deep financial crises. The switch to financial expansion makes the emergence of speculative bubbles very likely and is for this reason a possible source for a crisis. There is, however, another factor related to the first that makes crises possible. Secondly in fact, Ray illustrates the interaction between the ongoing new reorganisation of the world economy on the one hand and the sources and structures to finance this new emerging world economy on the other hand. Financial crises in hegemonic transition periods are characterised by the contradiction between the 'old way' (and currency) to finance the economy applied to an emerging 'new' world-economy.

Financial expansions do not resolve the underlying problems the world-economy is confronting and moreover create the seeds for the rise of an alternative hegemonic power. In fact financial expansions and the capital outflow from the hegemonic country contribute to the creation of the conditions for a "fundamental reorganization of the regime of accumulation"⁶⁷ the rising, new hegemonic power will eventually lead. Terminal crises of the 'old' regime of accumulation reflect the ongoing process of hegemonic transition.

The role of economic downturns, crises on transitions of "hegemony over the system"

Differently from Braudel and Arrighi, Wallerstein, Frank and Gills argue that the Kondratieff cycles correctly depict the general trends in the world economy. They have, however, different explanations that account for long waves. Here downturns can have different implications.

What ultimately causes systemic wide downturns or B-Phases in Wallerstein's analysis appears to be overproduction or, to put it in another way, an excess of supply in respect to demand. Hence In "The Modern World System II" he writes: "An era of expansion tends to create, over time, more supply than demand."⁶⁸ Wallerstein recognises a contradiction between the fact that supply is "determined by the individual entrepreneur", while demand is dependent upon the politically determined distribution of wealth and hence "collectively determined"⁶⁹. Entrepreneurs will expand production in an era of expansion expecting future profits, while the political arrangements that affect distribution and hence demand will not alter. Hence he observes: "Sooner or later, given the existing worldwide distribution, there comes to be insufficient worldwide demand for the constantly expanding production."⁷⁰ On the other hand the increase in production and eventually overproduction for the economy as a whole is provoked by free trade policies pursued by the hegemonic state, which, having competitive advantages opts for free markets being best endowed to take advantage from them, at least initially. Particularly important is the spread of technologies from the hegemonic state to other competing economies. Not only do free markets eventually contribute to overproduction, at the same time, through the spread to technologies, they

⁶⁷ Giovanni Arrighi, "Postscript to the 2nd edition", *The Long 20th Century: Money, Power and the Origins of our Times* (London: Verso, 2010), p. 372.

⁶⁸ Immanuel Wallerstein, *The Modern World System, Vol. II: Merchantilism and the Consolidation of the European World Economy 1600-1750* (New York: Academic Press, 1980), p. 130.

⁶⁹ Ibid, p.130.

⁷⁰ Ibid.

bring about the loss of the competitive advantages hitherto held by the hegemonic state. Since competitive advantages are what make a state hegemonic, their loss means the loss of hegemonic status as such. Thus "global liberalism", Wallerstein writes, "which is rational and cost effective breeds its own demise."⁷¹

An economic downturn has for Wallerstein three important implications. Firstly it leads to a relocation of production in the world economy, because core and semi-peripheral states will try to outsource the losses: "ruling groups in core and semi-peripheral areas will seek to maintain their levels of production and employment at the expense of the peripheral areas."⁷² Concretely as he observes in *The Modern World System III* core countries react to a downturn by concentrating "all the major sources of capitalist profit within their frontiers."⁷³ Secondly, historically a downturn has also lead core countries to "compete acutely among themselves", in particular over colonies: "they both colonise and seek to keep each other from colonising, which leads to acute colonial wars."⁷⁴ Wallerstein observes that the geographical expansion of the world economy "tended to correlate with phases of stagnation" and is driven especially by "the search for low cost labour forces" in order to find ways to increase profitability⁷⁵. Finally, it is especially in a downturn that semi peripheral zones can "decline" to the status of periphery or else "ascend" to the status of core-countries. What however is critical for the outcome of this process is the role of the state: "Movement" Wallerstein underlines "is primarily affected by [...] state action."⁷⁶

Despite the far-reaching consequences an economic downturn has, this merely represents the *loss of hegemonic status*. A downturn does in fact not yet imply a transition from one hegemonic state to another.

Frank and Gills present another account for explaining economic cycles. The relevant issue in determining long-term fluctuations in the economy following Ernest Mandel, they claim, is class conflict. Gills, who wrote more extensively on this subject matter, recognises class struggle as being "as old as civilisation" and maintains that throughout history exploited classes want to decrease the level of surplus extraction brought about by

⁷¹ Wallerstein, op. cit. in note 10, p. 106.

⁷² Wallerstein, op. cit. in note 68, p. 129.

⁷³ Immanuel Wallerstein, *The Modern World System, Vol. III. The Second Era of Great Expansion of the Capitalist World Economy, 1730-1840* (San Diego: University Press, 1989), p.59.

⁷⁴ Ibid, p. 158.

⁷⁵ Wallerstein, op. cit. in note 25, p. 39.

⁷⁶ Wallerstein, op. cit. in note 68, p. 179.

the ruling elites. The latter, contrariwise, want to increase the level of surplus extraction. A further decisive element Gills relies on is the inter-elite struggle over the surplus, especially between private elites and state elites.

He sees a "centralisation phase", where the state is predominant, as being associated with "high level of infrastructural investments", high levels of exchange and hence economic growth. This development ends as "the costs to maintain the system grow" and private elites are able to make gains regarding the share of the surplus they are able to obtain. This in turn leads to a "decentralisation phase", which is of parasitic nature, i.e. characterised by increasing consumption by private elites, declining infrastructural investments and declining patterns of exchange. According to Gills this attitude of private elites undermines the "stability of the state" and "the economic basis of society."⁷⁷ Eventually the state enters a fiscal crisis and by increasing taxation and expropriation with an already weak economic base the likelihood of rebellions increases. At this stage the state "begins to be feudalised or parcelised." As a consequence "the state may collapse altogether, leading to a period of anarchic local rivalries."⁷⁸

Here economic cycles are related to so-called 'hegemonic cycles' which depict the "internal" changes within different hegemonies outlined above. What is crucial for hegemonic transitions is whether phases of centralisation and decentralisation are synchronised or not. In the case of synchronisation, hegemonic powers rise and fall together. During a period of synchronised fall, external actors can take advantage. In the case of non-synchronisation, whereby one region or hegemon is in a centralisation phase while others are not, the former Gills argues, will have "considerable advantages." As he puts it "one of the easiest paths to hegemonic power is a conjuncture in which the major rivals are already weakened by either their own internal dynamic or a general crisis or war."⁷⁹ An economic downturn can hence bring about hegemonic transitions, understood as a reorganisation of the "hegemonic hierarchy" within the system, especially in the case where the downturn is not synchronised.

Economic Downturn, Crises and Hegemonic Stability Theory

Supporters of hegemonic stability theory have a contradictory attitude in respect to long cycle theories. Similar to World System Theory they accept Kondratieff's insights on economic fluctuations. Differently from Wallerstein, Frank and Gills they contend that long cycles can be explained following

⁷⁷ Frank and Gills, op cit. in note 35, p. 134.

⁷⁸ Ibid, p. 134

⁷⁹ Ibid, p. 137.

Schumpeter's account of this subject matter. Here "periods of economic expansion are due to development of technological and other innovations as well as discovery of new resources that provide the basis for growth of real investment" as Gilpin points out.⁸⁰ However in due course the impetus given to the economy loses its vitality, returns on investments decline, and the economy starts to stagnate. Nevertheless, despite their adherence to Schumpeter's explanation of long cycles, they paradoxically do not contend that capitalism creates conditions for crises and economic downturns. System wide crises and downturns *follow* the decline of the hegemon as the world economy, facing 'adverse external shocks', having no "stabiliser" able to prevent a slump developing in a system wide crisis like the Great Depression.

What exponents of Hegemony Stability Theory however do underline is that Schumpeter's insights can be helpful to show why the hegemon loses its capabilities and economic resources to act as "stabiliser". The central issue is the idea of "uneven growth" and in particular, as Gilpin appreciates, following Lenin, "that a capitalist international economy does develop the world, but does not develop it evenly"⁸¹. Thus on the one hand, similar to Wallerstein both Schwartz and Gilpin underline that free trade pursued by the hegemonic state in due course relatively weakens the latter's position within the world economy. As Schwartz observes "an open international economy facilitates the diffusion of the very leading-sector cluster and managerial technologies that constitute the hegemon's advantage."⁸² Furthermore a hegemonic country will be weakened when such profound, 'Schumpeterian' innovations happen to occur in other countries, which in turn can out-compete the hegemonic power in markets⁸³. For Schwartz this process can lead to the creation of effective challengers to the hegemon⁸⁴.

⁸⁰ Gilpin, op. cit. in note 43, p. 109.

⁸¹ Ibid, p. 39.

⁸² Schwartz, op. cit. in note 47, p. 80.

⁸³ For Schwartz hegemonised States can achieve this by pursuing so called kaledorian-strategies. By the latter he means a strategy for economic growth that independently from the existing advantages or disadvantages, attempts to increase output of given firms and in so doing making them more competitive. "By increasing skills, experience, and the division of labour," Schwartz explains "investment and production themselves change the nature of the factors available in the production mix, and so can override any initial factor disadvantages". Ibid, p. 61.

⁸⁴ For example Germany and the US, which challenged British hegemony made in fact substantive progresses in production, concerning in particular the professionalization of management, the cartelisation of industry, the electrification of production, and the taylorisation of production processes.

The 'earlier' or 'realist' Gilpin of "War and Change in World Politics" makes the same argument, showing that as a consequence of the process of uneven growth the hegemon, here understood as a substitute for an imperialist power and not just as provider of public goods, will be less able to maintain its position in the interstate system. Concretely, the costs to maintain the position in the interstate system rise as "increases in the numbers and strengths of rival, challenging powers force the dominant state to expend more resources to maintain its superior military or political position."⁸⁵ As Gilpin concludes "Most frequently [...] the dominant state is unable to generate sufficient additional resources to defend its vital commitments", while regarding costs he argues that "it may be unable to reduce its costs and commitments to some manageable size"⁸⁶

What is central in Hegemony Stability Theory is hence the process of "uneven growth" rather than system wide downturns and crises. It is uneven growth that can eventually weaken the hegemon and thus decrease its ability to stabilise the world economy. Slumps, which do not develop in system wide crises, can have of course the same effect as 'uneven growth' where they affect the hegemonic country more strongly than other countries. Slumps that do develop in system wide crises signal a strong weakening of the hegemon as the latter has lost its ability or willingness to stabilise the system. However, this does not yet suggest that there is an ongoing hegemonic transition.

Hegemonic transitions as the consequence of economic downturns and crises? Results and some tasks ahead

As has become evident from the above discussion of the different analyses, where hegemony is conceived 'within the system' economic downturns can have different implications. Wallerstein individuates capitalism's drive to create crises of overproduction and claims that the latter will be *synchronised* with hegemonic decline. Frank and Gills reach the same conclusion, but argue that crises in the world economy (which they claim is 5000 years old) occur as consequence of class conflict and in particular as a consequence of the resulting centralisation and decentralisation of power. However, while for Wallerstein hegemonic decline does not yet account for hegemonic transitions, in Frank and Gills a hegemonic transition *or rather a reorganisation* of hegemony is likely to occur on the condition that the downturn is not synchronised among the different simultaneously existing hegemonies.

⁸⁵ Gilpin, op. cit. in note 48, p.169.

⁸⁶ Ibid, p. 197.

Hegemony Stability Theory sees system wide downturns and crises as a consequence of declining hegemony, whereby the lack of a 'stabiliser' is ultimately the cause for why an external shock to the economy develops into a system wide downturn. Thus they do not individuate any underlying dynamics in capitalism that can lead to crises. Though, looking at their understanding of downturns which do not develop into system wide crises and in the context of uneven growth, it can be argued that crises are likely to weaken the hegemonic status of the hegemon if the latter is more affected than other states by such a crisis. While a crisis may weaken the hegemonic state, even in this case an economic crisis does, however, not yet account for hegemonic transitions.

Hence for these authors economic downturns and crises may account for declining hegemony or for the end of hegemony (especially for Wallerstein) without, however, implying hegemonic transitions. Here the decline of hegemony and the attainment of hegemony by another state seem to be two moments that are more strongly separated and less conclusive compared to Arrighi's understanding to which I will return to below. Even, the word "transition", because of the strong separation between hegemonic decline and the rise of a new hegemon, seems to be misplaced in the final analysis. In fact hegemonic "transitions" (or rather the *attainment of hegemony*) occur eventually after a war between contenders for hegemony.

Hence Wallerstein underlines that historically hegemony was "secured" through a 30 year long war between two contenders for leadership. He calls the first world war 'Alpha' (1618 – 1648), where "Dutch interests triumphed over Habsburg in the World Economy"⁸⁷; the second world war he calls 'Beta' (1792-1815) in which Britain defeated the French; the last World War 'Gamma' (1914-45) where the U.S were able to outdo the contender Germany.

According to Gilpin every international system was preceded by hegemonic wars and it is through hegemonic wars that "the right to rule" is acquired by one specific power. He explains the occurrence of such wars by observing disequilibrium in the international system, where the rules of the game no longer correspond to the existing (economic) power relations. Because peaceful means are ineffective to adjust the disequilibrium the way in which it is resolved is through hegemonic wars. The author defines a hegemonic war as being characterised "less by its immediate causes or its explicit purposes than by its extent and the stakes involved" and it affects

⁸⁷ Wallerstein, op. cit. in note 10, p. 104.

"all the political units inside one system of relations between sovereign states."⁸⁸ For Gilpin what is at stake is the government of the system and the nature of the system itself which makes hegemonic wars "unlimited conflicts; they are at once political, economic and ideological"⁸⁹.

Contrary to the above positions Braudel and Arrighi suggest that system wide crises (a downturn in the secular trend for Braudel and the "terminal crisis" in Arrighi's Systemic Cycle of Accumulation) are likely to bring about, or are even an expression of, hegemonic transitions. Thus for Braudel, but especially for Arrighi who has developed the argument more consistently, a system wide crisis represents at the same time the end of a particular regime of accumulation and the transition to another regime of accumulation that will be 'led' by another hegemonic state. Of course Arrighi does not rule out wars at the end of each Systemic Cycle of Accumulation characterised by systemic chaos, and, at the same time, also identifies an increase in system wide social unrest⁹⁰. However, it seems clear, a priori, in what direction the system is going, compared to other authors who envisage more possible outcomes which are not determined by economic factors alone.

Arrighi's framework could therefore perhaps run the risk of being interpreted along deterministic lines. Despite this, there are empirical and conceptual reasons for praising his analysis especially for his cogent and more developed analysis of hegemony and his understanding of the overall working of the capitalist world economy, especially in respect to crises. However, both deserve critical examination that cannot be fully developed here. I will hence address them positing a basis for possible further research.

As I have outlined, Arrighi, influenced by Gramsci, has probably the most elaborate definition of hegemony understanding it as a combination between consent and coercion, whereby an hegemonic power credibly claims to be the motor force of a general expansion rather than simply representing the stronger economy in the realm of production, commerce and finance. There are however two problematic issues. Firstly, his overreaching conceptualisation of hegemony, here labelled "hegemony over the system", does not enable us to define the boundaries of hegemonic reach, and, at the same time to individuate what lies "outside" hegemony and in what way this "outside" may influence hegemony. Secondly, while a transposition of the Gramscian concept of hegemony from the intrastate

⁸⁸ Gilpin, op. cit. in note 48, p. 197.

⁸⁹ Ibid, p.197.

⁹⁰ Arrighi, op. cit. in note 20, pp. 41, 52, 63.

level to the interstate level has important analytical validity, this does not mean that the *intra*state level should be simply forgotten – what is needed is a combination of the two “levels”⁹¹.

Arrighi’s richer and better-developed analysis of crises is probably best acknowledged looking at the underlying causes and dynamics of the present crisis. Indeed, his concept of “Systemic Cycles of Accumulation” seems best suited, at least *prima facie*, to describe the development of global capitalism from the post-war period onwards. This compared to Wallerstein’s characterisation of capitalism’s drive to produce cyclically ‘simply’ overaccumulation crises, Frank and Gill’s age old cyclical crises due to centralisation and decentralisation processes, and of course, compared to proponents of Hegemony Stability Theory who do not recognise capitalism’s intrinsic drive to produce crises at all.

Following Arrighi’s framework it can be argued that the post-war period is characterised by a first phase of material expansion lasting until the seventies which is brought to an end by a ‘signal crisis’ as the further expansion of trade and production starts to put pressure on profitability and the rate of capital accumulation, whereby as the author has put it “competition turns from a positive sum game into a zero sum game (or even a negative sum game).”⁹² This fundamental contradiction could not be overcome. However, through the switch to financial expansion, the second phase in Arrighi’s framework, lasting until nowadays, capitalist agencies have tried to overcome the contradiction – but, as the unfolding of the crisis suggests, this attempt failed.

The validity of Arrighi’s framework and his characterisation of the post-war period are strengthened by the fact that other authors such as Robert Brenner and David Harvey for example, have come to similar conclusions in offering in-depth empirical evidence, though they have used different analytical frameworks⁹³. It is nonetheless problematic that Arrighi

⁹¹ An interesting attempt to do so can be found in B. Silver’s contribution in Giovanni Arrighi & Beverley Silver, *Chaos and Governance in the Modern World System* (Minneapolis: University of Minnesota Press, 1999).

⁹² Arrighi, *op. cit.* in note 67, p. 372.

⁹³ David Harvey, *Limits to Capital* (Oxford: Basil Blackwell, 1982); *Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005); *The New Imperialism*. (Oxford: Oxford University Press, 2003) and Robert Brenner, “The Economics of Global Turbulence”, *New Left Review* (No.229, 1999); *The Boom and the Bubble. The US in the World Economy* (New York: Verso, 2003) suggest that from the end of the sixties, as European countries and Japan were able to catch up in respect to the US, further expansion of the world economy became problematic. This is especially due to problems of profitability and overproduction, which Brenner explains through an analysis of increased competition and Harvey addressing the contradiction between ‘forces of production’ and ‘social relations of production’. Despite various attempts to overcome

criticises the 'traditional' long cycle theories, while eventually proposing yet another version of them, i.e. "Systemic Cycles of Accumulation" as the best way to capture the way in which capitalism operates. Given their explanatory power, especially in respect to the dynamics of the current crisis the question is whether it is sensible or not to speak about "regimes", recurrent "cyclical" patterns in capitalist development – and if so, whether Arrighi's approach and especially his crisis theory is the one that makes most sense.

A further problematic aspect and what actually causes Arrighi to claim that "terminal crises" reflect ongoing hegemonic transitions, is his central proposition that through outgoing financial flows the declining hegemon creates the seeds for a new regime of accumulation with "higher barriers for capital accumulation" that will be led by the new rising hegemon. There are two problems with this assertion, which can also be critically discussed looking at the present situation and taking, as Arrighi and other do, China as possible future hegemon: firstly it is well known that regarding financial flows it is working the other way round this time: The US presents a strong capital inflow rather than outflow in respect to China. As Arrighi himself had to admit: "The United States is not following the pattern of other capital-exporting empires (Venice, Holland, Great Britain), but now is attracting a new wave of overseas investments"⁹⁴. The second problematic concerns the suggestion that financial expansions pose the seeds for the development of a new regime of accumulation in the rising hegemonic state. The fact that China's growth rate by far exceeds those in the West, even during the crisis, may in principle suggest that China indeed represents an alternative vis à vis the current and broken regime of accumulation. However, as Ho-fung Hung has very well shown in an interesting article on China called "Rise of China and the global overaccumulation crisis" the country is very well embedded in the current "regime" and itself susceptible to overaccumulation crises. As Ho-fung puts it, "the trends of overinvestment and underconsumption, when combined together, make China increasingly susceptible to a national overaccumulation crisis."⁹⁵ Further concerning issues are China's heavy reliance upon exports towards the United States and the investment of its savings in the latter country,

these problems ('Neo-liberal policies' and 'spatio-temporal fixes' for Harvey, 'Plaza and counter-Plaza accords' as well as disguised Keynesianism for Brenner), the capitalist economy as a whole failed to do so. What these various attempts achieved is a particular path of unsustainable development, which relied on 'credit bubbles' (corporate and private), the US's balance of payment deficit, and export led growth in other countries like Germany and China.

⁹⁴ Arrighi, op.cit. in note 67, p. 374.

⁹⁵ Hung Ho-Fung, "Rise of China and the Global Overaccumulation crisis", *Review of International Political Economy* (Vol.15, No.2, May 2008), p.170.

mentioned above. There are hence strong signs that China rather than representing a way to “set capital barriers higher” and function as “motor force” for a “new regime of accumulation” is very well integrated in and dependent upon the “current regime” and is helping to push against the already existing barriers.

Hence while Arrighi’s framework well captures the ongoing developments in respect to the present crisis, its theoretical foundation for hegemonic transitions and hence his overall conclusion on the ‘ongoing hegemonic transition towards China’ seems to be contradicted in various respects. This can be ameliorated by critically analysing his concept of hegemony and his notion of Systemic Cycles of Accumulation, which depicts in nuce the author’s central thoughts on the main dynamics of capitalist development and the latter’s relation to hegemony and hegemonic transitions.

Conclusion

The presentation of important accounts on hegemony, hegemonic transitions and the way in which economic downturns and crises are related to the latter enables us to look at the present crisis and the possible impact it may have in different ways. A fully developed critical assessment of the different theories and, based on this, an analysis of the present state of affairs is certainly desirable, but this lies beyond the purpose of this paper. In this concluding part I wish to offer a brief summary of the different positions and recall some possible research tasks that became evident with the discussion in the final section.

In this paper I have distinguished three main approaches to look at the subject of hegemony and hegemonic transitions. In particular I differentiated between those who conceive hegemony as “hegemony over the system” and those who conceive it as “hegemony within the system”. Hegemony Stability Theory, including elements of both, constitutes the third approach.

In the first case I argued that Braudel and Arrighi conceive hegemony as encompassing a whole structure. However, while both authors understand hegemony as more than economic supremacy, they define it differently and Arrighi makes an important contribution in characterising hegemony, following Gramsci, as a combination of consent and coercion rather than ‘domination’ or ‘leadership’ tout court. Hegemonic transitions here do not depict the rise and fall of hegemonies, but the collapse of a structure which is led and organised by a hegemonic power and the rise of another structure led by another hegemonic power. What is central, contra

long cycle theories, is the notion of "Systemic Cycles of Accumulation" which are composed by the "rise, full expansion, and eventual supersession" of a particular regime each led by a particular hegemonic state. Arrighi recognises a contradiction between the "self expansion of capital" and the "material expansion of the world economy" in each of these cycles. As the system enters into contradiction, competition increases and a switch from material expansion to financial expansion occurs. The analysis based on Braudel as well as the re-elaboration made by Arrighi can suggest that a system wide crisis, the terminal crisis at the end of the cycle, already represents an ongoing process of hegemonic transition, as in the period of financial expansion the seeds for a new Cycle of Accumulation and a new regime of accumulation under a new hegemon are posited.

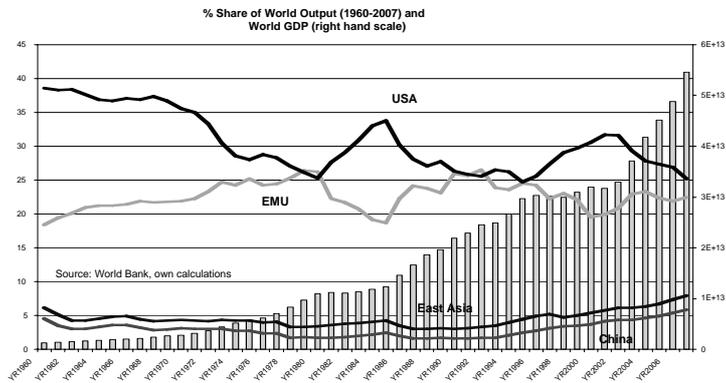
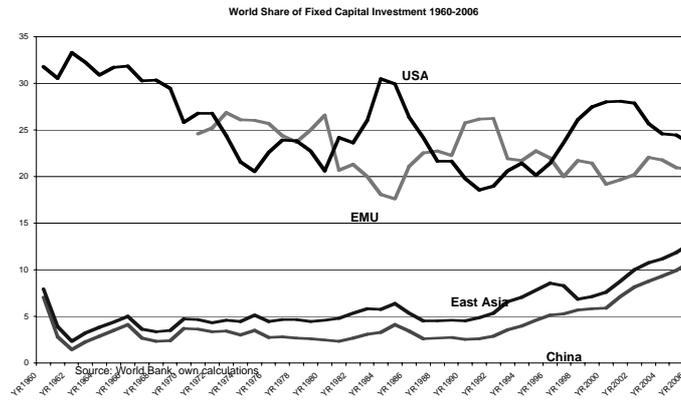
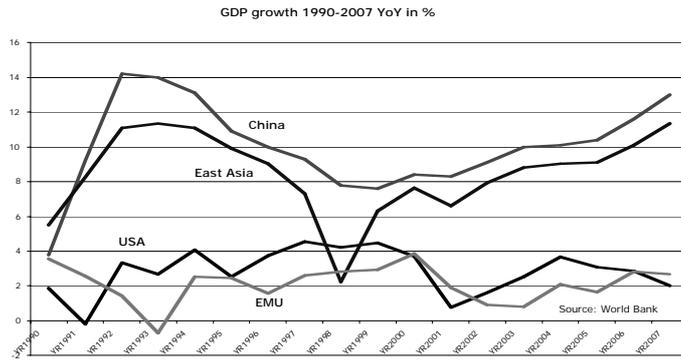
In World System Theory hegemony can be regarded as "hegemony within the system" and hegemony is mainly based on economic superiority. Here hegemonies rise and fall within the same system. Another feature of this approach is the acceptance of Kondratieff's long wave for understanding economic fluctuations. For Wallerstein an economic downturn is synchronised with the decline of hegemonic status as the loss of competitive advantages by the hegemon through the spread of free trade ultimately also leads to system wide crises of overproduction. A system wide economic crisis or downturn is hence synchronised with the decline of hegemony, without bringing about hegemonic transitions as such, which for Wallerstein occur after wars between contenders for hegemony. Differently Frank and Gills argue that hegemony is best understood as shared hegemony and that economic cycles, also in this case, synchronised with hegemonic decline are due to class struggle within states. If hegemonies do not rise and fall together, crises can lead to hegemonic transitions understood as reorganisation of the hegemonic hierarchy.

Hegemony Stability Theory contends that a hegemonic power provides the necessary public goods that make the world economy function smoothly. Similar to the definition given by Wallerstein, hegemony is acquired through economic superiority. Different from Wallerstein, but similar to Braudel and Arrighi, a hegemonic transition entails the collapse of the world economy and its possible recreation under a new hegemonic state. Although Hegemonic Stability Theory accepts long cycle theory, a system wide downturn and crisis here *follow* the decline of hegemonic status as the hegemon loses the capability to stabilise the economy in the case the latter is affected by negative "external shocks". However, proponents of Hegemony Stability Theory stress the process of "uneven growth" within the world economy and argue that as a consequence of this process the hegemonic country loses its economic supremacy which is likely to be accompanied by hegemonic decline. Crises affecting the hegemonic country

more than others have the same effect as “uneven growth”. Hegemonic transitions, however, occur also in this case as a consequence of major wars.

Hence the central question of this paper “What is the Relevance of Economic Downturns and Crises for Hegemonic Transitions?” can be answered in different ways: Crises and downturns for most authors do not yet account for hegemonic transitions although they weaken the hegemonic position of a particular state, leaving the question of hegemonic transition open to different outcomes. For Arrighi, instead, crises at the end of his “Systemic Cycles of Accumulation” already represent a process of hegemonic transition – hence, for him with the occurrence of system wide crises ‘alea iacta sunt’. Yet, despite the possibility of interpreting Arrighi’s argument along deterministic lines, his analytic framework is more consistently developed concerning the concept of hegemony as well as the complex dynamics of capitalist development when compared to other authors. Therefore when critically examined, Arrighi’s work is a good starting point for further research.

Appendix



Data Sources: World Bank: <http://econ.worldbank.org>.