

3.3 The rise and future demise of the world capitalist system: concepts for comparative analysis

Immanuel Wallerstein

Source: *Comparative Studies in Society and History*, vol. 16, no. 4 (1974), pp. 387-415.

Wallerstein examines the functions of states within the capitalist world-economy. He identifies three structural positions – core, peripheral and semi-peripheral – the last of which is essential to the smooth running of the world-economy since it acts as a bridge between core and periphery and a channel for development. He goes on to review historical evidence for this pattern and to project it into the future.

The structural differences of core and periphery are not comprehensible unless we realize that there is a third structural position: that of the semi-periphery. This is not the result merely of establishing arbitrary cutting-points on a continuum of characteristics. Our logic is not merely inductive, sensing the presence of a third category from a comparison of indicator curves. It is also deductive. The semi-periphery is needed to make a capitalist world-economy run smoothly. Both kinds of world-system, the world-empire with a redistributive economy and the world-economy with a capitalist market economy, involve markedly unequal distribution of rewards. Thus, logically, there is immediately posed the question of how it is possible politically for such a system to persist. Why do not the majority who are exploited simply overwhelm the minority who draw disproportionate benefits? The most rapid glance at the historic record shows that these world-systems have been faced rather rarely by fundamental system-wide insurrection. While internal discontent has been eternal, it has usually taken quite long before the accumulation of the erosion of power has led to the decline of a world-system, and as often as not, an external force has been a major factor in this decline.

There have been three major mechanisms that have enabled world-systems to retain relative political stability (not in terms of the

particular groups who will play the leading roles in the system, but in terms of systemic survival itself). One obviously is the concentration of military strength in the hands of the dominant forces. The modalities of this obviously vary with the technology, and there are to be sure political prerequisites for such a concentration, but nonetheless sheer force is no doubt a central consideration.

A second mechanism is the pervasiveness of an ideological commitment to the system as a whole. I do not mean what has often been termed the 'legitimation' of a system, because that term has been used to imply that the lower strata of a system feel some affinity with or loyalty towards the rulers, and I doubt that this has ever been a significant factor in the survival of world-systems. I mean rather the degree to which the staff or cadres of the system (and I leave this term deliberately vague) feel that their own well-being is wrapped up in the survival of the system as such and the competence of its leaders. It is this staff which not only propagates the myths; it is they who believe them.

But neither force nor the ideological commitment of the staff would suffice were it not for the division of the majority into a larger lower stratum and a smaller middle stratum. Both the revolutionary call for polarization as a strategy of change and the liberal economy to consensus as the basis of the liberal polity reflect this proposition. The import is far wider than its use in the analysis of contemporary political problems suggests. It is the normal condition of either kind of world-system to have a three-layered structure. When and if this ceases to be the case, the world-system disintegrates.

In a world-empire, the middle stratum is in fact accorded the role of maintaining the marginally-desirable long-distance luxury trade, while the upper stratum concentrates its resources on controlling the military machinery which can collect the tribute, the crucial mode of redistributing surplus. By providing, however, for an access to a limited portion of the surplus to urbanized elements who alone, in pre-modern societies, could contribute political cohesiveness to isolated clusters of primary producers, the upper stratum effectively buys off the potential leadership of coordinated revolt. And by denying access to political rights for this commercial-urban middle stratum, it makes them constantly vulnerable to confiscatory measures whenever their economic profits become sufficiently swollen so that they might begin to create for themselves military strength.

In a world-economy, such 'cultural' stratification is not so simple, because the absence of a single political system means the concen-

tration of economic roles vertically rather than horizontally throughout the system. The solution then is to have three kinds of states, with pressures for cultural homogenization within each of them — thus, besides the upper stratum of core states and the lower stratum of peripheral states, there is a middle stratum of semi-peripheral ones.

The semi-periphery is then assigned as if it were a specific economic role, but the reason is less economic than political. That is to say, one might make a good case that the world-economy as an economy would function every bit as well without a semi-periphery. But it would be far less politically stable, for it would mean a polarized world-system. The existence of the third category means precisely that the upper stratum is not faced with the unified opposition of all the others because the middle stratum is both exploited and exploiter. It follows that the specific economic role is not all that important, and has thus changed through the various historical stages of the modern world-system. We shall discuss these changes shortly.

Where then does class analysis fit in all of this? And what in such a formulation are nations, nationalities, peoples, ethnic groups? First of all, without arguing the point now, I would contend that all these latter terms denote variants of a single phenomenon which I will term 'ethno-nations'.

Both classes and ethnic groups, or status groups, or ethno-nations are phenomena of world-economies and much of the enormous confusion that has surrounded the concrete analysis of their functioning can be attributed quite simply to the fact that they have been analyzed as though they existed within the nation-states of this world-economy, instead of within the world-economy as a whole. This has been a Procrustean bed indeed.

The range of economic activities being far wider in the core than in the periphery, the range of syndical interest groups is far wider there. Thus, it has been widely observed that there does not exist in many parts of the world today a proletariat of the kind which exists in, say, Europe or North America. But this is a confusing way to state the observation. Industrial activity being disproportionately concentrated in certain parts of the world-economy, industrial wage-workers are to be found principally in certain geographic regions. Their interests as a syndical group are determined by their collective relationship to the world-economy. Their ability to influence the political functioning of this world-economy is shaped by the fact that they command larger percentages of the population in one sovereign entity than another. The form their organizations take has, in large part, been governed too by these political boundaries. The same might be said about

industrial capitalists. Class analysis is perfectly capable of accounting for the political position of, let us say, French skilled workers if we look at their structural position and interests in the world-economy. Similarly with ethno-nations. The meaning of ethnic consciousness in a core area is considerably different from that of ethnic consciousness in a peripheral area precisely because of the different class position such ethnic groups have in the world-economy.

Political struggles of ethno-nations or segments of classes within national boundaries of course are the daily bread and butter of local politics. But their significance or consequences can only be fruitfully analyzed if one spells out the implications of their organizational activity or political demands for the functioning of the world-economy. This also incidentally makes possible more rational assessments of these politics in terms of some set of evaluative criteria such as 'left' and 'right'.

The functioning then of a capitalist world-economy requires that groups pursue their economic interests within a single world-market while seeking to distort this market for their benefit by organizing to exert influence on states, some of which are far more powerful than others but none of which controls the world-market in its entirety. Of course, we shall find on closer inspection that there are periods where one state is relatively quite powerful and other periods where power is more diffuse and contested, permitting weaker states broader ranges of action. We can talk then of the relative tightness or looseness of the world-system as an important variable and seek to analyze why this dimension tends to be cyclical in nature, as it seems to have been for several hundred years.

We are now in a position to look at the historical evolution of this capitalist world-economy itself and analyze the degree to which it is fruitful to talk of distinct stages in its evolution as a system. The emergence of the European world-economy in the 'long' sixteenth century (1450-1640) was made possible by an historical conjuncture: on those long-term trends which were the culmination of what has been sometimes described as the 'crisis of feudalism' was superimposed a more immediate cyclical crisis plus climatic changes, all of which created a dilemma that could only be resolved by a geographic expansion of the division of labor. Furthermore, the balance of inter-system forces was such as to make this realizable. Thus a geographic expansion did take place in conjunction with a demographic expansion and an upward price rise.

The remarkable thing was not that a European world-economy was thereby created, but that it survived the Hapsburg attempt to

transform it into a world-empire, an attempt seriously pursued by Charles V. The Spanish attempt to absorb the whole failed because the rapid economic-demographic-technological burst forward of the preceding century made the whole enterprise too expensive for the imperial base to sustain, especially given many structural insufficiencies in Castilian economic development. Spain could afford neither the bureaucracy nor the army that was necessary to the enterprise, and in the event went bankrupt, as did the French monarchs making a similar, albeit even less plausible, attempt.

Once the Hapsburg dream of world-empire was over - and in 1557 it was over forever - the capitalist world-economy was an established system that became almost impossible to unbalance. It quickly reached an equilibrium point in its relations with other world-systems: the Ottoman and Russian world-empires, the Indian Ocean proto-world-economy. Each of the states or potential states within the European world-economy was quickly in the race to bureaucratize, to raise a standing army, to homogenize its culture, to diversify its economic activities. By 1640, those in northwest Europe had succeeded in establishing themselves as the core states; Spain and the northern Italian city-states declined into being semi-peripheral; northeastern Europe and Iberian America had become the periphery. At this point, those in semi-peripheral status had reached it by virtue of decline from a former more pre-eminent status.

It was the system-wide recession of 1650-1730 that consolidated the European world-economy and opened stage two of the modern world-economy. For the recession forced retrenchment, and the decline in relative surplus allowed room for only one core state to survive. The mode of struggle was mercantilism, which was a device of partial insulation and withdrawal from the world-market of large areas themselves hierarchically constructed - that is, empires within the world-economy (which is quite different from world-empires). In this struggle England first ousted the Netherlands from its commercial primacy and then resisted successfully France's attempt to catch up. As England began to speed up the process of industrialization after 1760, there was one last attempt of those capitalist forces located in France to break the imminent British hegemony. This attempt was expressed first in the French Revolution's replacement of the cadres of the regime and then in Napoleon's continental blockade. But it failed.

Stage three of the capitalist world-economy begins then, a stage of industrial rather than of agricultural capitalism. Henceforth, industrial production is no longer a minor aspect of the world market but

comprises an ever large percentage of world gross production – and even more important, of world gross surplus. This involves a whole series of consequences for the world-system.

First of all, it led to the further geographic expansion of the European world-economy to include now the whole of the globe. This was in part the result of its technological feasibility both in terms of improved military firepower and improved shipping facilities which made regular trade sufficiently inexpensive to be viable. But, in addition, industrial production *required* access to raw materials of a nature and in a quantity such that the needs could not be supplied within the former boundaries. At first, however, the search for new markets was not a primary consideration in the geographic expansion since the new markets were more readily available within the old boundaries, as we shall see.

The geographic expansion of the European world-economy meant the elimination of other world-systems as well as the absorption of the remaining mini-systems. The most important world-system up to then outside of the European world-economy, Russia, entered in semi-peripheral status, the consequence of the strength of its state-machinery (including its army) and the degree of industrialization already achieved in the eighteenth century. The independences in the Latin American countries did nothing to change their peripheral status. They merely eliminated the last vestiges of Spain's semi-peripheral role and ended pockets of non-involvement in the world-economy in the interior of Latin America. Asia and Africa were absorbed into the periphery in the nineteenth century, although Japan, because of the combination of the strength of its state-machinery, the poverty of its resource base (which led to a certain disinterest on the part of world capitalist forces), and its geographic remoteness from the core areas, was able quickly to graduate into semi-peripheral status.

The absorption of Africa as part of the periphery meant the end of slavery world-wide for two reasons. First of all, the manpower that was used as slaves was now needed for cash-crop production in Africa itself, whereas in the eighteenth century Europeans had sought to *discourage* just such cash-crop production. In the second place, once Africa was part of the periphery and not the external arena, slavery was no longer economic. To understand this, we must appreciate the economics of slavery. Slaves receiving the lowest conceivable reward for their labor are the least productive form of labor and have the shortest life span, both because of undernourishment and maltreatment and because of lowered psychic resistance to

death. Furthermore, if recruited from areas surrounding their workplace the escape rate is too high. Hence, there must be a high transport cost for a product of low productivity. This makes economic sense only if the purchase price is virtually nil. In capitalist market trade, purchase always has a real cost. It is only in long-distance trade, the exchange of preciousities, that the purchase price can be in the social system of the purchaser virtually nil. Such was the slave trade. Slaves were bought at low immediate cost (the production cost of the items actually exchanged) and none of the usual invisible costs. That is to say, the fact that removing a man from West Africa lowered the productive potential of the region was of zero cost to the European world-economy since these areas were not part of the division of labor. Of course, had the slave trade totally denuded Africa of all possibilities of furnishing further slaves, then a real cost to Europe would have commenced. But that point was never historically reached. Once, however, Africa was part of the periphery, then the real cost of a slave in terms of the production of surplus in the world-economy went up to such a point that it became far more economical to use wage-labor, even on sugar or cotton plantations, which is precisely what transpired in the nineteenth-century Caribbean and other slave-labor regions.

The creation of vast new areas as the periphery of the expanded world-economy made possible a shift in the role of some other areas. Specifically, both the United States and Germany (as it came into being) combined formerly peripheral and semi-peripheral regions. The manufacturing sector in each was able to gain political ascendancy, as the peripheral subregions became less economically crucial to the world-economy. Mercantilism now became the major tool of semi-peripheral countries seeking to become core countries, thus still performing a function analogous to that of the mercantilist drives of the late seventeenth and eighteenth centuries in England and France. To be sure, the struggle of semi-peripheral countries to 'industrialize' varied in the degree to which it succeeded in the period before the First World War: all the way in the United States, only partially in Germany, not at all in Russia.

The internal structure of core states also changed fundamentally under industrial capitalism. For a core area, industrialism involved divesting itself of substantially all agricultural activities (except that in the twentieth century further mechanization was to create a new form of working the land that was so highly mechanized as to warrant the appellation industrial). Thus whereas, in the period 1700-40, England not only was Europe's leading industrial exporter but was

also Europe's leading agricultural exporter – this was at a high point in the economy-wide recession – by 1900, less than 10 per cent of England's population were engaged in agricultural pursuits.

At first under industrial capitalism, the core exchanged manufactured products against the periphery's agricultural products – hence, Britain from 1815 to 1873 as the 'workshop of the world'. Even to those semi-peripheral countries that had some manufacture (France, Germany, Belgium, the US), Britain in this period supplied about half their needs in manufactured goods. As, however, the mercantilist practices of this latter group both cut Britain off from outlets and even created competition for Britain in sales to peripheral areas, a competition which led to the late nineteenth-century 'scramble for Africa', the world division of labor was reallocated to ensure a new special role for the core: less the provision of the manufactures, more the provision of the machines to make the manufactures as well as the provision of infra-structure (especially, in this period, railroads).

The rise of manufacturing created for the first time under capitalism a large-scale urban proletariat. And in consequence for the first time there arose what Michels has called the 'anti-capitalist mass spirit',¹ which was translated into concrete organizational forms (trade-unions, socialist parties). This development intruded a new factor as threatening to the stability of states and of the capitalist forces now so securely in control of them as the earlier centrifugal thrusts of regional anti-capitalist landed elements had been in the seventeenth century.

At the same time that the bourgeoisies of the core countries were faced by this threat to the internal stability of their state structures, they were simultaneously faced with the economic crisis of the latter third of the nineteenth century resulting from the more rapid increase of agricultural production (and indeed of light manufactures) than the expansion of a potential market for these goods. Some of the surplus would have to be redistributed to someone to allow these goods to be bought and the economic machinery to return to smooth operation. By expanding the purchasing power of the industrial proletariat of the core countries, the world-economy was unburdened simultaneously of two problems: the bottleneck of demand, and the unsettling 'class conflict' of the core states – hence, the social liberalism of welfare-state ideology that arose just at that point in time.

The First World War was, as men of the time observed, the end of an era; and the Russian Revolution of October 1917 the beginning of a new one – our stage four. This stage was to be sure a stage of

revolutionary turmoil but it also was, in a seeming paradox, the stage of the *consolidation* of the industrial capitalist world-economy. The Russian Revolution was essentially that of a semi-peripheral country whose internal balance of forces had been such that as of the late nineteenth century it began on a decline towards a peripheral status. This was the result of the marked penetration of foreign capital into the industrial sector which was on its way to eliminating all indigenous capitalist forces, the resistance to the mechanization of the agricultural sector, the decline of relative military power (as evidenced by the defeat by the Japanese in 1905). The Revolution brought to power a group of state-managers who reversed each one of these trends by using the classic technique of mercantilist semi-withdrawal from the world-economy. In the process of doing this, the now USSR mobilized considerable popular support, especially in the urban sector. At the end of the Second World War, Russia was reinstated as a very strong member of the semi-periphery and could begin to seek full core status.

Meanwhile, the decline of Britain which dates from 1873 was confirmed and its hegemonic role was assumed by the United States. While the US thus rose, Germany fell further behind as a result of its military defeat. Various German attempts in the 1920s to find new industrial outlets in the Middle East and South America were unsuccessful in the face of the US thrust combined with Britain's continuing relative strength. Germany's thrust of desperation to recoup lost ground took the noxious and unsuccessful form of Nazism.

It was the Second World War that enabled the United States for a brief period (1945-65) to attain the same level of primacy as Britain had in the first part of the nineteenth century. United States growth in this period was spectacular and created a great need for expanded market outlets. The Cold War closure denied not only the USSR but Eastern Europe to US exports. And the Chinese Revolution meant that this region, which had been destined for much exploitative activity, was also cut off. Three alternative areas were available and each was pursued with assiduity. First, Western Europe had to be rapidly 'reconstructed', and it was the Marshall Plan which thus allowed this area to play a primary role in the expansion of world productivity. Secondly, Latin America became the reserve of US investment from which now Britain and Germany were completely cut off. Thirdly, Southern Asia, the Middle East and Africa had to be decolonized. On the one hand, this was necessary in order to reduce the share of the surplus taken by the Western European inter-

mediaries, as Canning covertly supported the Latin American revolutionaries against Spain in the 1820s. But also, these countries had to be decolonized in order to mobilize productive potential in a way that had never been achieved in the colonial era. Colonial rule after all had been an *inferior* mode of relationship of core and periphery, one occasioned by the strenuous late-nineteenth-century conflict among industrial states but one no longer desirable from the point of view of the new hegemonic power.

But a world capitalist economy does not permit true imperium. Charles V could not succeed in his dream of world-empire. The Pax Britannica stimulated its own demise. So too did the Pax Americana. In each case, the cost of *political* imperium was too high economically, and in a capitalist system, over the middle run when profits decline, new *political* formulae are sought. In this case the costs mounted along several fronts. The efforts of the USSR to further its own industrialization, protect a privileged market area (Eastern Europe), and force entry into other market areas led to an immense spiralling of military expenditure, which on the Soviet side promised long-run returns, whereas for the US it was merely a question of *running very fast to stand still*. The economic resurgence of Western Europe, made necessary both to provide markets for US sales and investments and to counter the USSR military thrust, meant over time that the Western European state structures collectively became as strong as that of the US, which led in the late 1960s to the 'dollar and gold crisis' and the retreat of Nixon from the free-trade stance which is the definitive mark of the self-confident leader in a capitalist market system. When the cumulated Third World pressures, most notably Vietnam, were added on, a restructuring of the world division of labor was inevitable, involving probably in the 1970s a quadripartite division of the larger part of the world surplus by the US, the European Common Market, Japan, and the USSR.

Such a decline in US state hegemony has actually *increased* the freedom of action of capitalist enterprises, the larger of which have now taken the form of multinational corporations which are able to maneuver against state bureaucracies whenever the national politicians become too responsive to internal worker pressures. Whether some effective links can be established between multinational corporations, presently limited to operating in certain areas, and the USSR remains to be seen, but it is by no means impossible.

This brings us to the seemingly esoteric debate between Liu Shao-Chi and Mao Tse-Tung as to whether China was, as Liu argued, a socialist state, or whether, as Mao argued, socialism was a *process*

involving continued and continual class struggle. No doubt to those to whom the terminology is foreign the discussion seems abstrusely theological. The issue, however, is real. If the Russian Revolution emerged as a reaction to the threatened further decline of Russia's structural position in the world-economy, and if fifty years later one can talk of the USSR as entering the status of a core power in a capitalist world-economy, what then is the meaning of the various so-called socialist revolutions that have occurred in a third of the world's surface? First let us notice that it has been neither Thailand nor Liberia nor Paraguay that has had a 'socialist revolution' but Russia, China and Cuba. That is to say, these revolutions have occurred in countries that, in terms of their internal economic structures in the pre-revolutionary period, had a certain minimum strength in terms of skilled personnel, some manufacturing, and other factors which made it plausible that, within the framework of a capitalist world-economy, such a country could alter its role in the world division of labor within a reasonable period (say 30-50 years) by the use of the technique of mercantilist semi-withdrawal. (This may not be all that plausible for Cuba, but we shall see.) Of course, other countries in the geographic regions and military orbit of these revolutionary forces had changes of regime without in any way having these characteristics (for example, Mongolia or Albania). It is also to be noted that many of the countries where similar forces are strong or where considerable counterforce is required to keep them from emerging also share this status of minimum strength. I think of Chile or Brazil or Egypt - or indeed Italy.

Are we not seeing the emergence of a political structure for *semi-peripheral* nations adapted to stage four of the capitalist world-system? The fact that all enterprises are nationalized in these countries does not make the participation of these enterprises in the world-economy one that does not conform to the mode of operation of a capitalist market-system: seeking increased efficiency of production in order to realize a maximum price on sales, thus achieving a more favorable allocation of the surplus of the world-economy. If tomorrow US Steel became a worker's collective in which all employees without exception received an identical share of the profits and all stockholders were expropriated without compensation, would US Steel thereby cease to be a capitalist enterprise operating in a capitalist world-economy?

What then have been the consequences for the world-system of the emergence of many states in which there is no private ownership of the basic means of production? To some extent, this has meant an

internal reallocation of consumption. It has certainly undermined the ideological justifications in world capitalism, both by showing the political vulnerability of capitalist entrepreneurs and by demonstrating that private ownership is irrelevant to the rapid expansion of industrial productivity. But to the extent that it has raised the ability of the new semi-peripheral areas to enjoy a larger share of the world surplus, it has once again depolarized the world, recreating the triad of strata that has been a fundamental element in the survival of the world-system.

Finally, in the peripheral areas of the world-economy, both the continued economic expansion of the core (even though the core is seeing some reallocation of surplus internal to it) and the new strength of the semi-periphery have led to a further weakening of the political and hence economic position of the peripheral areas. The pundits note that 'the gap is getting wider', but thus far no one has succeeded in doing much about it, and it is not clear that there are very many in whose interests it would be to do so. Far from a strengthening of state authority, in many parts of the world we are witnessing the same kind of deterioration Poland knew in the sixteenth century, a deterioration of which the frequency of military coups is only one of many signposts. And all of this leads us to conclude that stage four has been the stage of the *consolidation* of the capitalist world-economy.

Consolidation, however, does not mean the absence of contradictions and does not mean the likelihood of long-term survival. We thus come to projections about the future, which has always been man's great game, his true *hybris*, the most convincing argument for the dogma of original sin. Having read Dante, I will therefore be brief.

There are two fundamental contradictions, it seems to me, involved in the workings of the capitalist world-system. In the first place, there is the contradiction to which the nineteenth-century Marxian corpus pointed, which I would phrase as follows: whereas in the short-run the maximization of profit requires maximizing the withdrawal of surplus from immediate consumption of the majority, in the long-run the continued production of surplus requires a mass demand which can only be created by redistributing the surplus withdrawn. Since these two considerations move in opposite directions (a 'contradiction'), the system has constant crises which in the long-run both weaken it and make the game for those with privilege less worth playing.

The second fundamental contradiction, to which Mao's concept of socialism as process points, is the following: whenever the tenants of

privilege seek to co-opt an oppositional movement by including them in a minor share of the privilege, they may no doubt eliminate opponents in the short-run; but they also up the ante for the next oppositional movement created in the next crisis of the world-economy. Thus the cost of 'co-option' rises ever higher and the advantages of co-option seem ever less worthwhile.

There are today no socialist systems in the world-economy any more than there are feudal systems because there is only one world-system. It is a world-economy and it is by definition capitalist in form. Socialism involves the creation of a new kind of world-system, neither a redistributive world-empire nor a capitalist world-economy but a socialist world-government. I don't see this projection as being in the least utopian but I also don't feel its institution is imminent. It will be the outcome of a long struggle in forms that may be familiar and perhaps in very new forms, that will take place in all the areas of the world-economy (Mao's continual 'class struggle'). Governments may be in the hands of persons, groups or movements sympathetic to this transformation but states as such are neither progressive nor reactionary. It is movements and forces that deserve such evaluative judgments.

NOTE

- 1 Robert Michels. 'The Origins of the Anti-Capitalist Mass Spirit', in *Man in Contemporary Society* (Columbia University Press, New York, 1955), vol. 1, pp. 740-65.