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# Globalization or the Age of Transition?

## *A Long-Term View of the Trajectory of the World System*

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**abstract:** Globalization is a misleading concept, since what is described as globalization has been happening for 500 years. Rather what is new is that we are entering an 'age of transition'. We can usefully analyze the current world situation using two time frames: 1945 to the present and circa 1450 to the present.

The period since 1945 has been one long Kondratieff cycle, with an A-phase that ran through 1967–76 and a B-phase ever since. The economic and political developments of the last 50 years are easy to place within this framework. The period from 1450 to the present is the long history of the capitalist world economy, with its secular trends all reaching critical points. This article analyzes the long-term rise in real wage levels, in costs of material inputs of production and of levels of taxation, the combination of which has been creating constraints on the possibilities of capital accumulation. The long history of the anti-systemic movements and their structural failures has led to a serious decline in the legitimacy of state structures which is threatening to subvert the political pillars of the existing world system.

For all these reasons, the modern world system is in structural crisis and has entered into a period of chaotic behavior which will cause a systemic bifurcation and a transition to a new structure whose nature is as yet undetermined and, in principle, impossible to predetermine, but one that is open to human intervention and creativity.

**keywords:** capital accumulation ♦ globalization ♦ Kondratieff cycles ♦ secular trends of the world system ♦ transition

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The 1990s have been deluged with a discourse about globalization. We are told by virtually everyone that we are now living, and for the first

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time, in an era of globalization. We are told that globalization has changed everything: the sovereignty of states has declined; everyone's ability to resist the rules of the market has disappeared; our possibility of cultural autonomy has been virtually annulled; and the stability of all our identities has come into serious question. This state of presumed globalization has been celebrated by some and bemoaned by others.

This discourse is in fact a gigantic misreading of current reality – a deception imposed upon us by powerful groups and an even worse one that we have imposed upon ourselves, often despairingly. It is a discourse that leads us to ignore the real issues before us, and to misunderstand the historical crisis within which we find ourselves. We do indeed stand at a moment of transformation. But this is not that of an already established, newly globalized world with clear rules. Rather we are located in age of transition, transition not merely of a few backward countries who need to catch up with the spirit of globalization, but a transition in which the entire capitalist world system will be transformed into something else. The future, far from being inevitable and one to which there is no alternative, is being determined in this transition that has an extremely uncertain outcome.

The processes that are usually meant when we speak of globalization are not in fact new at all. They have existed for some 500 years. The choice we have to make today is not whether or not to submit to these processes but, rather, what to do when these processes crumble, as they are presently crumbling. One would think, reading most accounts, that 'globalization' is something that came into existence in the 1990s – perhaps only upon the collapse of the Soviet Union, perhaps a few years earlier. The 1990s are not, however, a significant time marker to use if one wants to analyze what is going on. Rather, we can most fruitfully look at the present situation in two other time frameworks, the one going from 1945 to today, and the one going from circa 1450 to today.

The period 1945 to today is that of a typical Kondratieff cycle of the capitalist world economy, which has had as always two parts: an A-phase or upward swing or economic expansion that went from 1945 to 1967–73, and a B-phase or downward swing or economic contraction that has been going from 1967–73 to today and probably will continue on for several more years. The period 1450 to today, by contrast, marks the life cycle of the capitalist world economy, which had its period of genesis, its period of normal development and now has entered into its period of terminal crisis. In order to comprehend the present situation, we need to distinguish between these two social times, and the empirical evidence for each of them.

In many ways, the Kondratieff cycle in which we find ourselves is the easier of the two social times to understand, since it resembles all previous

Kondratieff cycles, which have been much studied. The A-period of the present Kondratieff was what the French aptly called *les trente glorieuses*. It coincided with the high point of US hegemony in the world system and occurred within the framework of a world order that the USA established after 1945. The USA, as we know, emerged from the Second World War as the only major industrial power whose industries were intact, and whose territories had not been badly damaged by wartime destruction. US industries had, of course, been perfecting their efficiencies for over a century. This long-term economic development combined with the literal collapse of the economic structures of the other major loci of world production gave the USA a productivity edge that was enormous, at least for a time, and made it easy for US products to dominate the world market. It made possible, furthermore, the largest expansion of both value and real production in the history of the capitalist world economy, creating simultaneously great wealth and great social strain in the world social system.

As of 1945, the USA had two major problems. It needed a relatively stable world order in which to profit from its economic advantages. And it needed to re-establish some effective demand in the rest of the world, if it expected to have customers for its flourishing productive enterprises. In the period 1945–55, the USA was able to solve both these problems without too much difficulty. The problem of world order was resolved in two parts. On one hand, there was the establishment of a set of interstate institutions – notably, the UNs, the IMF and the World Bank – all of which the USA was able to control politically and which provided the formal framework of order. And on the other hand, and more importantly, the USA came to an arrangement with the only other serious military power in the post-1945 world, the USSR – an arrangement to which we have come to refer by the code-name ‘Yalta’.

Yalta was an agreement, worked out in detail over a period of a decade, that basically had three clauses. First, the world was to be divided *de facto* into a US zone (most of the world) and a Soviet zone (the rest), the dividing line to be where their respective troops were located when the Second World War ended, and both sides would agree to remain militarily within these boundaries. Second, the Soviet zone could, if it wished, pursue collectively a mercantilist policy, that is, reduce to a minimum trade transactions with the US zone until it strengthened its own productive machinery, but this involved, however, as a counterpart that the USA would not be expected to contribute to the economic reconstruction of this zone. And third, both sides were free, indeed encouraged, to engage in vigorous, reciprocally hostile rhetoric, whose chief function seemed to be to consolidate the political control of the USA and the USSR over their respective zones. The Berlin Blockade and the Korean War, both of which

ended in truces reaffirming the original lines of partition, were the final capstones of this global agreement.

The problem of creating enough world effective demand for US production was solved by means of the Marshall Plan for Western Europe and equivalent economic assistance to Japan, the latter occurring particularly after the outbreak of the Korean War and on the excuse of the war. The USA took advantage of the Cold War tensions to reinforce these economic links with military ties – NATO plus the US–Japan Defense Pact – which ensured that these zones would follow faithfully the political lead of the USA on all major issues in the international arena.

To be sure, not everyone was happy with these arrangements. There were, after all, those left out of the benefits of Yalta – the Third World as a whole, the least favored groups within the western world and the Soviet satellite states of East/Central Europe who endured their yoke but did not celebrate it. Those left out erupted with some regularity, and on occasion with particular force: China in 1945–8, Vietnam, Algeria, Hungary in 1956, Cuba and southern Africa. These successive eruptions posed problems for the US world order and, indeed, for the Soviet Union as well. But they were like punches to the stomach of a strong boxer; the punches could be absorbed, and they were. The big exception was the Vietnam war, which began to bleed the USA, both in terms of finance and lives lost, and therefore in terms of US national morale.

But the biggest blow to the USA, the hardest to absorb, was the economic recovery and then flourishing of Western Europe and Japan. By the 1960s, the productivity gap between these countries and the USA had been more or less eliminated. The Western European countries and Japan recovered control over their national markets and began to compete effectively with US products in the markets of third countries. They even began to be competitive within the US home market. The automaticity of US economic advantage had thus largely disappeared by the late 1960s.

The increase in world production resulting from the recovery and expansion of West European/Japanese production led to a glut on the world market and a sharp decline in the profitability of many of the principal industrial sectors, such as steel, automobiles and electronics. The consequent downturn in the world economy was marked by two major events: the necessity for the USA to go off the gold standard and the world revolution of 1968. The first was caused by the fact that the politico-military expenses of enforcing US hegemony plus the lessened competitiveness in world markets turned out to be quite expensive and thus drained the US financial surplus. The USA had to begin to work hard politically to maintain the economic advantages it had had so easily in the A-period, and it began by pulling in its monetary belt somewhat.

The world revolution of 1968 was triggered by the discontents of all

those who had been left out in the well-organized world order of US hegemony. The details of the 1968 uprisings were different in the various arenas of the world system, but such uprisings did occur everywhere: in addition to the obvious 1968 events in the western world and Japan, usually noted, I include the Cultural Revolution in China beginning in 1966 and the turn to 'socialism with a human face' in Czechoslovakia in 1968, as well as the diverse events in Mexico, Senegal, Tunisia, India, and many other countries of the Third World. In all of them, however different the local situation, there was a recurrent double theme. The first was opposition to US hegemony *and* to Soviet collusion with that hegemony (the Yalta arrangements between what the Chinese called the super-powers). And the second was disillusionment with the Old Left in all its forms (communist, social-democrat, movements of national liberation). The latter disillusionment was the unpredicted consequence of the very success of these movements. All these movements had constructed in the late 19th century an identical two-step strategy of struggle – first conquer state power; then transform society. The fact is that, in the period of US hegemony, paradoxically (or perhaps not so paradoxically) the movements of the Old Left had indeed come to power almost everywhere: as the Communist parties in the socialist countries (running from the Elbe to the Yalu); as social-democratic parties (or their equivalents) in the pan-European world (Western Europe, North America and Australasia); and as national liberation movements in the Third World (or equivalently as populist movements in Latin America). They had come to power, but they had not been able to achieve the second step they had envisaged, the transformation of society, or so the revolutionaries of 1968 believed. The movements in power were seen as having failed to deliver on their historic promises.

It is just at this point that the world economy entered into its long period of stagnation. The crucial measure of a stagnation in the world economy is that profits from production drop considerably from the levels at which they were in the preceding A-period. This has a series of clear consequences. Persons with capital shift their primary locus of seeking profit from the productive sphere to the financial sphere. Second, there is significantly increased unemployment worldwide. Third, there occur significant shifts of loci of production from higher-wage areas to lower-wage areas (what used to be called the phenomenon of 'runaway factories'). This trio of consequences can be seen to have occurred worldwide since circa 1970. We have had endless escalation of speculative activity which is, of course, very profitable for a relatively small group of people, at least until the point when the bubble bursts. We have had very large shifts of production from North America, Western Europe and even Japan to other parts of the world system, which have consequently claimed that they

were 'industrializing' and therefore developing. Another way of characterizing what happened is to say that these semi-peripheral countries were the recipients of what were now less profitable industries. And we have had a rise in unemployment everywhere – in most countries of the South to be sure, but in the North as well. To be sure, unemployment rates do not have to be uniform in all countries. Far from it! Indeed, one of the major activities of the governments of all states during this period has been to try to shift the unemployment burden to other states, but such shifts can be only momentarily successful.

Let us rapidly review how this scenario has been played out.

The most striking economic happening of the early 1970s, now almost forgotten but at the time one that absorbed the newspaper headlines of the entire world, was the OPEC oil price rise. All of a sudden, the major oil-producing states created in effect a serious cartel and raised the price of oil on the world market considerably. Originally, this was hailed by some as an intelligent political move by Third World states against the principal states of the North. But observe right away something strange. The decision of OPEC, a decision that had been advocated for a long time by the so-called radical states such as Libya and Algeria, was only made possible now by the suddenly acquired enthusiastic support of the two closest friends of the USA in the Middle East: Saudi Arabia and Iran under the Shah. How curious!

The effect of the oil price rise was immediate. It raised prices of virtually all other products, but unevenly. It led to a reduction in production of many commodities, which was useful given the glut. Countries that relied on income from the export of raw materials saw their income from this source go down at the very moment that their imports went up in price; hence there were acute balance of payments difficulties. The increased income from the sale of oil went, first of all, to oil-producing countries and, of course, to the so-called Seven Sisters, the great transnational mega-structures in the petroleum industry. The oil-producing countries suddenly had a monetary surplus. Some of it went to increased expenditures on their part, largely imports from the North, which helped restore demand in the latter countries. But another part went into bank accounts, largely in the USA and Germany. The increased funds in the banks had to be lent to someone. These banks aggressively peddled loans to the finance ministers of poorer countries suffering from balance of payment difficulties, acute unemployment and consequent internal unrest. These countries borrowed extensively, but then found it difficult to repay the loans, which thus cumulated until debt payments rose to intolerable levels. It was just at this point that the Japanese competitive advantage suddenly blossomed, although Western Europe was also not doing badly, whereas the USA was suffering from so-called 'stagflation'.

In the meantime, the USA sought to maintain its political hold on Western Europe and Japan by erecting a pastiche of consultative structures: the Trilateral Commission, the G-7 (which, it might be said, was an idea of Valéry Giscard d'Estaing, that he thought might limit US power but which turned out to do the opposite). The USA reacted politically to the Vietnam fiasco by adopting for a time a 'low posture' in the Third World – becoming more flexible in zones like Angola, Nicaragua, Iran and Cambodia. But not everyone was ready to respond to such flexibility by lowering their demands. The new revolutionary government of Iran, under Ayatollah Khomeini, refused to play by the rules of the interstate game, denouncing the USA as the Great Satan (and the Soviet Union as the number two Satan) and imprisoning US diplomats. Liberal centrism and Keynesian economics suddenly went out of fashion. Margaret Thatcher launched so-called 'neoliberalism', which was of course really an aggressive conservatism of a type that had not been seen since 1848, and which involved an attempt to reverse welfare state redistribution so that it went to the upper classes rather than to the lower classes.

If the 1970s thus ended with a bang, the 1980s was not far behind. The loans to the poorer states had gotten out of hand, and the debt crisis began. It began, not in 1982 as usually argued when Mexico announced it could not repay its debt, but in 1980, when the Gierak government of Poland decided to try to meet its debt problems by squeezing its working class, a move that met spectacular resistance with the emergence of Solidarnosc in Gdansk. The events in Poland marked the death knell of the Soviet satellite system in East/Central Europe, a key linchpin in the Yalta arrangements, although it would still take a decade for the disintegration to be fully accomplished. This was the same moment that the USSR made the crucial tactical error of going into Afghanistan, and would thus bleed itself in the same way the USA had done in Vietnam, with less social resilience to permit it to survive the consequences.

The 1980s can be summed up in a few code-words. The first was the 'debt crisis', which brought down not only most of Latin America (not to speak of Africa) but also East/Central Europe. The debt crisis revealed the degree to which the economic realities of East/Central Europe were not essentially different from those of the Third World. The second was the 'flying geese' of East Asia – Japan's amazing economic romp through the world economy, followed by and dragging along first the Four Dragons (South Korea, Taiwan, Hong Kong and Singapore), and eventually Southeast Asia and mainland China as well. The third was the 'military Keynesianism' of the Reagan administration which overcame US recession and high unemployment by enormous government borrowing, in particular from Japan, on the excuse of the reinforcement of military structures, and whose single biggest consequence was the creation of an

incredible US national debt. The fourth was the flourishing on the US stock exchange of 'junk bonds', which essentially meant enormous borrowing on the part of large corporations in order to make short-run speculative profits at the expense of productive machinery and causing, in turn, so-called 'downsizing', which meant forcing middle-income strata into lower-paying jobs in the economy.

In the 1980s, the whole world economy looked in bad shape except for East Asia, although that did not prevent financial speculators from making astounding profits. Along with this, and for a time, a certain stratum of the upper middle class, the so-called 'yuppies', prospered, causing inflationary pressures in the luxury market and in real estate worldwide. But most of the world suffered loss of income and deflation through the collapse of currencies. In the wake of these worldwide difficulties, the Soviet Union came apart. Or rather, Gorbachev made a spectacular attempt to prevent this by throwing ballast overboard. He unilaterally disarmed, forcing US reciprocity. He abandoned Afghanistan and, in effect, East/Central Europe. And he sought cautiously to reform the internal political system. His downfall was due to the fact that he grievously underestimated the emergent forces of nationalism within the Soviet Union itself and, most of all, that of Russian nationalism.

The tensile strength of the Yalta agreements came undone, as much because of US as because of Soviet weakness. Neither the USA nor Gorbachev wanted the arrangements to come apart. But the long stagnation in the world economy had undone them. And Humpty Dumpty could not be put together again.

Since 1970, the world economy had gone through three debt cycles, which were all attempts to maintain the spending power of the world system: the oil money loans to the Third World and to the socialist countries; the borrowing of the US government; and the borrowing of the large corporations. Each artificially raised prices in some areas beyond their market value. Each led to great difficulties about repayment, handled by various kinds of pseudo-bankruptcies. Finally, in 1990, the Japanese real estate bubble burst, reducing paper value enormously. The last bulwark of productive economic strength in the world economy had come under assault. This was to be the story of the 1990s.

The US political position now came under severe attack, not despite but precisely because of the collapse of the Soviet Union. Saddam Hussein decided to take advantage of the post-Yalta reality and directly challenged the USA militarily by invading Kuwait. He was able to do this because the USSR was no longer in a position to restrain him. He did this because, in the short run, it promised to solve the problems of Iraq's debts (heavily owed to Kuwait) and increase its oil income. And he did this because he hoped to use the invasion, in the middle run, as the basis for

a military unification of the Arab world under his aegis, a unification he saw as a necessary step in a direct military challenge to the North, in general, and to the USA, in particular.

There were two possibilities for Saddam: that the USA would back down or that it would not. If the first occurred, his victory would be immediate. But he counted on the fact that, even if the second occurred, he would gain over the longer run. Thus far, history has not proven his calculation wrong. The USA of course, did mobilize the necessary military force to drive the Iraqis out of Kuwait and to place Iraq under severe international constraints after that. But the price for the USA was high. It demonstrated that it could not afford financially to conduct such operations. The entire military bill of the USA was borne by Saudi Arabia, Kuwait, Japan and Germany. And it demonstrated that it could not remove Saddam inside Iraq because the USA was unwilling to send troops into the interior of Iraq. The two constraints – financial and military – of the USA were both dictated by US public opinion, which was ready to applaud nationalist victory, provided it cost no money and no lives. This is the basic explanation of how Saddam has been able to survive ever since, and why the efforts to limit Iraq's maintenance of weapons of mass destruction have been so ineffectual.

In the 1990s, Western Europe made the essential step forward in its unification with the creation of the euro and thus achieved the financial underpinning necessary to pull away from its close political links to the USA. This will no doubt lead in the coming decade to the creation of a real European army and, thereby, a military disjunction from the USA. The disintegration of the Balkan zone has clearly demonstrated the very limited effectiveness of NATO as a political force, and it has managed to strain even further US–Western European relations.

And in the midst of all this came the so-called Asian crisis. The financial collapse of the Southeast Asian states and the Four Dragons was followed by the disastrous interference of the IMF, which accentuated both the economic and political consequences. What we should note, essentially, about this collapse is that deflation has at last hit East Asia and its derivative zone, followed, as we know, by Russia and Brazil. The world holds its breath, waiting for it to hit the USA. We shall then enter into the last subphase of this Kondratieff downturn.

After that, will we at last see a new Kondratieff A-phase? Yes, assuredly, but one within a secular deflation as in the 17th and 18th centuries, and not one within a secular inflation as in the 16th, 18th and 20th centuries. But we shall also see something different. We must now turn our attention away from the Kondratieff cycles and onto the long-term development of the modern world system as a historical system.

The capitalist world economy has long maintained itself, as any system

does, by mechanisms that restore equilibrium every time its processes move away from it. The equilibrium is never restored immediately, but only after a sufficient deviation from the norm occurs, and, of course, it never is restored perfectly. Because it requires that deviations go a certain distance before they trigger counter-movements, the result is that the capitalist world economy, like any other system, has cyclical rhythms of multiple kinds. We have discussed one of the principal ones it has developed, which are called Kondratieff cycles. They are not the only ones.

The equilibrium is never restored to the same point because the counter-movements require some change in the underlying parameters of the system. Hence the equilibrium is always a moving equilibrium, and, therefore, the system has secular trends. It is this combination of cyclical rhythms and secular trends that define a system that is functioning 'normally'. However, secular trends cannot go on forever, because they hit asymptotes. Once this happens, it is no longer possible for the cyclical rhythms to bring the system back into equilibrium, and this is when a system gets into trouble. It then enters into its terminal crisis, and bifurcates – that is, it finds itself before two (or more) alternative routes to a new structure, with a new equilibrium, new cyclical rhythms and new secular trends. But which of the two alternative routes the system will take, that is, what kind of new system will be established, is intrinsically not possible to determine in advance, since it is a function of an infinity of particular choices that are not systemically constrained. This is what is happening now in the capitalist world economy.

To appreciate this, we must look at the major secular trends that are approaching their asymptotes. Each of them is thereby creating limits to the accumulation of capital. But since the endless accumulation of capital is the defining feature of capitalism as an historical system, the triple pressure is tending to make unfeasible the primary motor of the system and hence is creating a structural crisis.

The first secular trend is the real wage level as a percentage of costs of production, calculated as an average throughout the whole world economy. Obviously, the lower this is, the higher the profit level, and vice versa. What determines the real wage level? Quite clearly, the answer is the *rapport de forces* between the labor force in a given zone and sector of the world economy and the employers of such labor. This *rapport de forces* is a function primarily of the political strength of the two groups in what we call the class struggle. When one speaks of the market as the constraining element in determining the wage levels it is deceptive, since the market value of labor is a function of the multiple *rapports de force* in the various zones of the world economy. These varying political strengths are, in turn, a function of the efficacy of political organization in one form or another of given workforces and the real alternatives of the employers in

terms of relocating their operations. Both of these factors constantly change.

What one can say is that over time in any given geographical/sectoral locality, the workforce will seek to create some form of syndical organization and action that will enable them to bargain more effectively either directly with the employer or indirectly via their influence on the relevant political machinery. While no doubt such political strength can be set back in given localities through the political counteroffensives of capitalist groups, it is also true that the long-run 'democratization' of the political machineries throughout the history of the modern world system has served to make the curve of the political strength of the working classes an upward one over the *longue durée* in virtually all states in the world system.

The principal mechanism by which capitalists worldwide have been able to limit this political pressure has been the relocation of given sectors of production to other zones of the world economy that are, on the average, lower-wage areas. This is a difficult operation politically as well as one that is dependent on taking skill levels into the calculations of eventual profits. Hence, it has tended to be done primarily during Kondratieff B-periods, as we suggested earlier. Nonetheless, it has been done repeatedly during the historical development of the modern world system. But why are the areas into which the sectors are being relocated lower-wage areas? It solves nothing to say that this is the consequence of 'historical' wage levels. Whence this history?

The primary source of truly low-wage labor has always been newly recruited migrants from rural areas, often those who are entering the wage-labor market for the first time. They are ready to accept what are by world standards low wages for two reasons. The net income they receive is, in fact, higher than the net income they previously received in their rural activity. And they are socially uprooted and, consequently, politically somewhat in disarray and unable, therefore, to defend well their interests. Both explanations wear out over time, certainly after, say, 30 years, and such workers begin to exert pressures on wage levels parallel to those of workers in other regions of the world economy. In this case, the major option for capitalists is further relocation.

As one can see, such a mode of conducting the class struggle is dependent on there always being new areas of the world system into which to relocate, and this is dependent on the existence of a significant rural sector that is not yet engaged in the wage-labor market. But the latter is precisely what has been diminishing as a secular trend. The deruralization of the world is on a fast upward curve. It has grown continuously over 500 years but most dramatically since 1945. It is quite possible to foresee that it will have largely disappeared in another 25 years. Once the whole

world system is deruralized, the only option for capitalists is to pursue the class struggles where they are presently located. And here the odds are against them. Even with the increased polarization of real income not only in the world system as a whole but within the wealthiest countries, the political and market sophistication of the lower strata continues to grow. Even where there are large numbers of persons who are technically unemployed and deriving their income, such as it is, from the informal economy, the real alternatives available to workers located in the *barrios* and *favelas* of the world system are such that they are in a position to demand reasonable wage levels in order to enter the formal wage economy. The net result of all of this is a serious pressure on profit levels that will increase over time.

The second secular trend that is disturbing to capitalists is rather different. It has to do not with the cost of wage labor but with the cost of material inputs. What is involved in the cost of inputs? It is not only the price at which they are bought from a different firm but also the cost of treating them. Now while the cost of purchase is normally borne entirely by the firm that will eventually get the profits, the costs of treating the materials is often partially borne by others. For example, if in treating the raw materials there is toxic or cumbersome waste, part of the cost involved is getting rid of such waste and, if toxic, in a safe manner. Firms, of course, desire to minimize these costs of disposal. One way they can do this, a way very widely practiced, is by placing the waste somewhere away from the factory site after minimal detoxification, for example, by dumping chemical toxins into a stream. This is called by economists 'externalizing the costs'. Of course, this is not the end of the costs of disposal. To stick to the example, if toxins are dumped into a stream, it may poison the stream, and eventually (perhaps decades later) there will be damage to people or to other matter (at costs that are real, if difficult to calculate). And there may be a social decision to clean up the toxins, in which case the body that undertakes the clean-up, often the state, bears the cost. Another mode of reducing costs is to utilize raw materials, but not to provide for (that is, pay for) their renewal, a problem that is especially true of organic matter. Such externalization of costs significantly reduces the costs of raw materials to given producers and hence increases the margin of profit.

The problem here is akin to that with relocation as a solution to wage costs. It works as long as there are previously unutilized areas in which to dump waste. But eventually there are no more streams to pollute, or trees to cut down – or, at least, there are no more without serious immediate consequences for the health of the biosphere. This is the situation in which we find ourselves today after 500 years of such practices, which is why today we have an ecology movement that has been growing rapidly throughout the world.

What can be done? Well, the governments of the world can undertake what amounts to a vast clean-up campaign and a vast campaign of organic renewal. The problem is the cost of an effective operation, which is enormous, and thus must be paid by someone via some form of taxes. There are only two 'someones': either the firms that are considered to have been the perpetrators of the waste or the rest of us. If it is the former, the pressure on profit margins will be impressively high. If it is the latter, the tax burdens will mount significantly, a problem to which we are coming. Furthermore, there is not much point in clean-up and organic renewal if the practices remain as at present, since it would amount to cleaning an Augean stable. Hence, the logical inference is to require the total internalization of all costs. This, however, would add still further to the pressure on the profits of individual firms. I do not see any plausible solution for this social dilemma within the framework of a capitalist world economy, and hence I suggest that this is the second structural pressure on the accumulation of capital.

The third pressure lies in the realm of taxation. Taxation is, of course, a payment for social services and, therefore, is accepted as a reasonable cost of production, provided it is not too high. Now what has determined the level of taxation? To be sure, there has been the constant demand of security (the military, the police). This has, as we know, steadily risen over the centuries because of the increasing relative costs of the means of security, the scope of military actions and the perceived need of police actions. The second steady rise has been in the size of the civil bureaucracies of the world, a function first of all of the need to collect taxes and second of all to perform the expanding functions of modern states.

The major expanding function has been in providing for certain popular demands. This has not been an optional expense. The growth of these provisions has been a principal means of ensuring relative political stability in response to growing discontent of the lower strata concerning the increasing polarization of real income, which has been a steady feature of the world system. Social welfare efforts by governments have been the payoff that has been utilized to tame the 'dangerous classes', that is, to keep the class struggle within limited bounds.

We call the response to these popular demands 'democratization', and it has also been a very real secular trend. There are three principal varieties of such popular demands: educational institutions, health facilities and guarantees of income across the lifetimes of individuals (especially unemployment insurance and social security for the aged). There are two things to be noted about such demands. They have been made in more and more zones of the world system and are today nearly universal. And the levels of the demands have risen steadily within each country, with no clear limit in sight.

This has meant, has had to mean, steadily rising tax rates in virtually every country, with at most occasional, slight reductions. But, of course, at a certain point, such redistributive taxation reaches levels where it interferes seriously with the possibility of accumulating capital. Hence the reaction today to what is perceived as the 'fiscal crises of the states' is for capitalists to demand a rollback and to seek popular support on the grounds that individual taxation is also rising sharply. The irony is that while there is often popular support for limiting taxes, there is zero popular support for cutting back welfare provisions (either of education, health or income guarantees). Indeed, at the very time that there are clamors about high taxation, the levels of popular demand on government services are growing. So here, too, we have a structural pressure on the accumulation of capital.

So there we are – three major structural pressures on the ability of capitalists to accumulate capital which are the result of secular trends and which continuously ratchet upward. This crisis, not in growth but in capital accumulation, is further complicated by a different phenomenon, the loss of legitimation of the state structures. States are a crucial element in the ability of capitalists to accumulate capital. States make possible quasi-monopolies, which are the only source of significant profit levels. States act to tame the 'dangerous classes', both by repression and by appeasement. States are the principal source of ideologies that persuade the mass of the population to be relatively patient.

The major argument for patience has been the inevitability of reform. Things will get better – if not immediately, then for one's children and grandchildren. A more prosperous, more egalitarian world is on the horizon. This is, of course, official liberal ideology, and it has dominated the geoculture since the 19th century. But it has also been the theme of all the anti-systemic movements, not least those which have proclaimed themselves most revolutionary. These movements have particularly emphasized this theme when they have occupied state power. They have said to their own working classes that they were 'developing' their economies, and these working classes must be patient while the fruits of economic growth eventually improve their life situations. They have preached patience not only about standards of living but also about the absence of political equality.

As long as such anti-systemic movements (whether they were communist, social-democrat or national liberation movements) were in their mobilizing phase against inegalitarian, militaristic, dictatorial, fascist, colonial or even simply conservative regimes, this theme was muted and did not interfere with the ability of anti-systemic movements to secure extensive popular support. Once, however, such movements came to power, as they did extensively throughout the world during the period 1945–70

(the Kondratieff A-period of which we have been speaking), they were put to the test. And worldwide they have been found wanting. The record of post-'revolutionary' regimes has been that they have not been able to reduce worldwide or even internal polarization to any significant degree, nor have they been able to institute serious internal political equality. They have, no doubt, accomplished many reforms, but they promised far more than reforms. And because the world system has remained a capitalist world economy, the regimes outside the core zone have been structurally unable to 'catch up' with the wealthy countries.

This is not merely a matter of academic analysis. The result of these realities has been a monumental disillusionment with the anti-systemic movements. To the extent that they retain support, it is at most as a *pis aller*, as a reformist group better, perhaps, than a more right-wing alternative but certainly not as a harbinger of the new society. The major result has been a massive disinvestment in state structures. The masses of the world, having turned toward the states as agents of transformation, have now returned to a more fundamental skepticism about the ability of the states to promote transformation or even to maintain social order.

This worldwide upsurge of anti-statism has two immediate consequences. One is that social fears have escalated, and people everywhere are taking back from the states the role of providing for their own security. But of course this institutes a negative spiral. The more they do so the more there is chaotic violence, and the more there is chaotic violence, the more the states find themselves unable to handle the situation, and therefore the more people disinvest the state, which further weakens the ability of the states to limit the spiral. We have entered into this kind of spiral at varying paces in the various countries of the world system but at a growing pace virtually everywhere.

The second consequence is one for the capitalists. States that are delegitimated find it far more difficult to perform their function of guaranteeing the quasi-monopolies that capitalists need, not to speak of their ability to tame the 'dangerous classes'. Thus, at the very moment that capitalists are faced with three structural squeezes on the global rates of profit, and hence on their ability to accumulate capital, they find that the states are less able than before to help them resolve these dilemmas.

Thus it is that we can say that the capitalist world economy has now entered its terminal crisis – a crisis that may last up to 50 years. The real question before us is what will happen during this crisis, this transition from the present world system to some other kind of historical system or systems. Analytically, the key question is the relation between the Kondratieff cycles I first described and the systemic crisis of which I have been talking now. Politically, there is the question of what kind of social action is possible and desirable during a systemic transition.

Kondratieff cycles are part of the 'normal' functioning of the capitalist world economy. Such so-called normal functioning does not cease because the system has entered into a systemic crisis. The various mechanisms that account for the behavior of a capitalist system are still in place. When the present B-phase has exhausted itself, we shall undoubtedly have a new A-phase. However, the systemic crisis interferes seriously with the trajectory. It is a bit as though one tried to drive a car downhill with a motor still intact but with a damaged body and wheels. The car would no doubt roll forward but surely not in the straight line one would have previously expected nor with the same guarantees that the brakes would work efficiently. How it would behave would become rather difficult to assess in advance. Supplying more gas to the motor might have unexpected consequences. The car could crash.

Schumpeter accustomed us a long time ago to the idea that capitalism would not collapse because of its failures but because of its successes. We have tried to indicate here how the successes (modes of counteracting downturns in the world economy and modes of maximizing the accumulation of capital) have, over time, created structural limits to the very accumulation of capital they were intended to ensure. This is concrete empirical evidence of the Schumpeterian assumption. No doubt, to continue the analogy of the damaged automobile, a wise chauffeur might drive quite slowly under these difficult conditions. But there is no wise chauffeur in the capitalist world economy. No individual or group has the power to make the necessary decisions alone. And the very fact that these decisions are being made by a large number of actors who operate separately and each in his/her own immediate interests virtually ensures that the car will not slow down. Probably, it will start to go faster and faster.

Consequently, what we may expect is recklessness. As the world economy enters a new period of expansion, it will thereby exacerbate the very conditions which have led it into a terminal crisis. In technical terms, the fluctuations will get wilder and wilder, or more 'chaotic', and the direction in which the trajectory is moving ever more uncertain, as the route takes more and more zigzags with every greater rapidity. At the same time, we may expect the degree of collective and individual security to decrease, perhaps vertiginously, as the state structures lose more and more legitimacy. And this will no doubt increase the amount of day-by-day violence in the world system. This will be frightening to most people, as well it should be.

Politically, this situation will be one of great confusion, since the standard political analyses we have developed to understand the modern world system will seem not to apply or will seem to be outdated. This will not really be true. But these analyses will apply primarily to the

ongoing processes of the existing world system and not to the reality of a transition. This is why it is so important to be clear on the distinction between the two and on the ways in which this double reality will play itself out.

In terms of ongoing reality, it will be almost impossible for political action to affect it very much. To return to the analogy of the damaged car going downhill, we may correctly feel somewhat helpless, and the most we may be able to do is to try to maneuver so as to minimize immediate harm to ourselves. But in terms of the transition as a whole, the opposite is true. Precisely because its outcome is unpredictable, and precisely because its fluctuations are so wild, it will be true that even the slightest political action will have great consequences. I like to think of this as the moment in historical time when free will truly comes into play.

We can think of this long transition as one enormous political struggle between two large camps: the camp of all those who wish to retain the privileges of the existing inegalitarian system, albeit in different forms – perhaps vastly different forms; and the camp of all those who would like to see the creation of a new historical system that will be significantly more democratic and more egalitarian. However, we cannot expect that the members of the first camp will present themselves in the guise that I have used to describe them. They will assert that they are modernizers, new democrats, advocates of freedom and progressive. They may even claim to be revolutionary. The key is not in the rhetoric but in the substantive reality of what is being proposed.

The outcome of the political struggle will be in part the result of who is able to mobilize whom, but it will also be in large part the degree to which who is able to analyze better what is going on, and what are the real historical alternatives with which we are collectively faced. That is to say, it is a moment at which we need to unify knowledge, imagination and praxis. Or else we risk saying, a century from now, *plus ça change, plus c'est la même chose*. The outcome is, I insist, intrinsically uncertain and, therefore, precisely open to human intervention and creativity.

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