

THEME 02

The end of the fourth Hegemonic Cycle

HEGEMONY

CAPITALISM

GEOPOLITICS

Since the birth of capitalism in the Italian city states of the 15th century, there have been four cycles of hegemony: Genoese, Dutch, British and American. The history of these Hegemonic Cycles holds several interesting patterns that allow us to gain a deeper understanding of our current geopolitical moment.

Our observations

- In the book *The Long Twentieth Century*, Giovanni Arrighi outlines the history of capitalism into successive periods of global hegemony (the Republic of Genoa, the United Provinces, the United Kingdom, and the United States). By showing recurrent patterns in the history of hegemony, the book provides a lens to look at our current geopolitical moment.
- [The U.S. dollar](#) is still the anchor of the international monetary system as it accounts for about 60% of foreign exchange reserves, foreign currency liabilities and bank deposits. The economist Barry Eichengreen has shown that historically, the dominance of a currency comes to an end within a multipolar global system.
- Since the 1970s, [real wages](#) for U.S. workers have barely budged.
- The Chinese economy, the world's second largest, could overtake the U.S. economy in a decade (estimates vary). China's economic growth rate stood at [6.6%](#) in 2018, accounting for around 30% of global GDP growth.
- The Telegraph reports that "the era of austerity is over" as British politicians are converging on [fiscal expansionism](#). Illustrative of the growing tolerance for debt, earlier this year, ex-IMF chief economist Olivier Blanchard concluded that "public debt may have no fiscal cost" by arguing that its benefits exceed the costs.
- Currency devaluation has become a focal point for global trade tensions. The IMF recently [warned](#) that the surge in monetary easing from both advanced and emerging economies has created fears of a currency war.



Connecting the dots

In *The Long Twentieth Century*, Giovanni Arrighi shows that since the birth of capitalism in the Italian city-states of the 15th century, capitalism has unfolded over a 700-year period by producing hegemonic powers that secure control over the global economy (Genoa, Dutch Republic, UK, U.S.). The recurrence of several patterns within these Hegemonic Cycles allows us to gain a deeper understanding of our current geopolitical moment, in which the hegemony of the U.S. is coming to an end.

Each Hegemonic Cycle begins with a period of “material expansion”. As competition over capital intensifies, historically, this eventually leads to the concentration of capital accumulation in a leading state. Genoa, Amsterdam, London and New York became “hegemonic” by dominating global capital flows. As the hegemon accumulates more and more capital, it will keep reinvesting its surplus capital in trade and production of material goods, triggering the “material expansion” of the global economy. For U.S. hegemony, the period of material expansion lasted from the 1950s to the early 1970s and has been called the [Golden Age of Capitalism](#), in which global trade and production grew at unprecedented rates.

What follows is “financial expansion” and it is triggered by what Arrighi calls a “signal crisis”. It is the moment in which, for the hegemon, it is no longer profitable to reinvest all of its surplus capital in material trade and production, as competition in the global trading system pushes down profits. Instead, financial speculation becomes more profitable. Put simply, the hegemon switches from trade in commodities to trade in money. The switch to finance was made in the 16th century by the Genoese, in the 18th century by the Dutch, in the late 19th century by the British, and in the 1970s by the US. By 1979, foreign exchange trading amounted to more than 11 times the value of global trade, and five years later, to almost 20 times the value of global trade.

The switch to finance also triggers a “belle époque”. It is what Arrighi calls a “wonderful moment” of renewed wealth and power for the hegemon as the society’s elite benefits from financial expansion. In previous cycles, these were the Italian Renaissance, the Dutch ‘pruikentijd’ (periwig period) and the Edwardian era. In the U.S., the Reagan era

is the belle époque that followed financial expansion (“it’s morning again in America”). All of these periods have been called “Gilded Ages” as the rich were not ashamed to live conspicuously. However, the belle époque also symbolizes the deepening of the “signal crisis” of capitalism. For one thing, the belle époque lays the foundation for populism by leaving behind the middle class that benefited from material expansion (e.g. production, trade). Indeed, since the financial expansion of the 1970s, real wages for American workers have stagnated and populism responds to this dissatisfaction.

The end of hegemony is marked by the “terminal crisis” as a rival state launches another period of material expansion. However, before this happens, there is a relatively long period of “dualism of power” between the center of finance and the rival center(s). Historically, these periods have escalated into a final climax of 30-year conflicts (the Thirty Years’ War, the Napoleonic Wars, and the World Wars). It is important to note that the rival center (e.g. France, Germany) is not necessarily the next hegemon and the 30-year conflicts are actually wide-ranging conflicts between many different states.

At what point in the Hegemonic Cycle have we arrived? Several scenarios are possible. It is often assumed that China is replacing the U.S. Interestingly, previous hegemonies have always financed rise of the next hegemon (the Genoese merchant elite financed the Dutch Republic, the Dutch financed the British East India Company, and the British fell heavily into debt to the U.S.). Similarly, the U.S. financed the rise of China through debt, FDI and technology transfers. Another possibility is that, with growing tolerance for debt, protectionist measures and currency war rhetoric, we have entered something akin to the 30-year conflict. However, it is also possible that the history of Hegemonic Cycles has come to an end, either because the U.S. has grown too powerful, capable of integrating rival centers into its network of global capitalism, or because a rival system is emerging in East Asia. All in all, thinking in terms of Hegemonic Cycles shows that if we look at our current geopolitical moment from a longstanding history, we can see that hegemonic shifts occur much differently than is often assumed.

Implications

- **By connecting other (historical or geopolitical) patterns to the Hegemonic Cycle, we can speculate about the next cycle.** For instance, each Hegemonic Cycle was started by a capitalist state with a larger scale (e.g. population, geography) than the previous one; each Hegemonic Cycle was significantly shorter than the previous one; each hegemon was a maritime power capable of controlling the world’s most important maritime trading routes. All of this could point to China or India as the next hegemon.
- It is likely that the next phase of material expansion requires a fundamental departure from the socially and ecologically unsustainable path of the global economy, in which the costs of man and nature have been largely “externalized”. Indeed, the state that leads the Second [Deep Transition](#) could become the next hegemon.
- Although the idea of a 30-year conflict paints a dark picture, innovation accelerates during these periods, as rising government expenses and growing tolerance for debt create the conditions for industrial expansion. During the Napoleonic Wars, unprecedented expenses by the British led to innovation in iron railways and iron ships, and during the World Wars, the American car industry grew rapidly.