ated. To the extent that we each analyze our social prisons, we liberate ourselves from their constraints to the extent that we can be liberated.

Lastly, it must be emphasized that for world-systems analysts, time and space—or rather that linked compound TimeSpace—are not unchanging external realities which are somehow just there, and within whose frames social reality exists. TimeSpaces are constantly evolving constructed realities whose construction is part and parcel of the social reality we are analyzing. The historical systems within which we live are indeed systemic, but they are historical as well. They remain the same over time yet are never the same from one minute to the next. This is a paradox, but not a contradiction. The ability to deal with this paradox, which we cannot circumvent, is the principal task of the historical social sciences. This is not a conundrum, but a challenge.

The world in which we are now living, the modern world-system, had its origins in the sixteenth century. This world-system was then located in only a part of the globe, primarily in parts of Europe and the Americas. It expanded over time to cover the whole globe. It is and has always been a world-economy. It is and has always been a capitalist world-economy. We should begin by explaining what these two terms, world-economy and capitalism, denote. It will then be easier to appreciate the historical contours of the modern world-system—its origins, its geography, its temporal development, and its contemporary structural crisis.

What we mean by a world-economy (Braudel's économie-monde) is a large geographic zone within which there is a division of labor and hence significant internal exchange of basic or essential goods as well as flows of capital and labor. A defining feature of a world-economy is that it is not bounded by a unitary political structure. Rather, there are many political units inside the world-economy, loosely tied together in our modern world-system in an interstate system. And a world-economy contains many cultures and groups—practicing many religions, speaking many languages, differing in their everyday patterns. This does not mean that they do not evolve some common cultural patterns, what we shall be calling a geoculture. It does mean that neither political nor cultural homogeneity is to be expected or found in a world-economy. What unifies the structure most is the division of labor which is constituted within it.

Capitalism is not the mere existence of persons or firms producing for sale
on the market with the intention of obtaining a profit. Such persons or firms have existed for thousands of years all across the world. Nor is the existence of persons working for wages sufficient as a definition. Wage-labor has also been known for thousands of years. We are in a capitalist system only when the system gives priority to the endless accumulation of capital. Using such a definition, only the modern world-system has been a capitalist system. Endless accumulation is a quite simple concept: it means that people and firms are accumulating capital in order to accumulate still more capital, a process that is continual and endless. If we say that a system "gives priority" to such endless accumulation, it means that there exist structural mechanisms by which those who act with other motivations are penalized in some way, and are eventually eliminated from the social scene, whereas those who act with the appropriate motivations are rewarded and, if successful, enriched.

A world-economy and a capitalist system go together. Since world-economies lack the unifying cement of an overall political structure or a homogeneous culture, what holds them together is the efficacy of the division of labor. And this efficacy is a function of the constantly expanding wealth that a capitalist system provides. Until modern times, the world-economies that had been constructed either fell apart or were transformed manu militari into world-empires. Historically, the only world-economy to have survived for a long time has been the modern world-system, and that is because the capitalist system took root and became consolidated as its defining feature.

Conversely, a capitalist system cannot exist within any framework except that of a world-economy. We shall see that a capitalist system requires a very special relationship between economic producers and the holders of political power. If the latter are too strong, as in a world-empire, their interests will override those of the economic producers, and the endless accumulation of capital will cease to be a priority. Capitalists need a large market (hence minisystems are too narrow for them) but they also need a multiplicity of states, so that they can gain the advantages of working with states but also can circumvent states hostile to their interests in favor of states friendly to their interests. Only the existence of a multiplicity of states within the overall division of labor assures this possibility.

A capitalist world-economy is a collection of many institutions, the combination of which accounts for its processes, and all of which are intertwined with each other. The basic institutions are the market, or rather the markets; the firms that compete in the markets; the multiplicity of states, within an interstate system; the households; the classes; and the status-groups (to use Weber's term, which some people in recent years have renamed the "identities"). They are all institutions that have been created within the framework of the capitalist world-economy. Of course, such institutions have some similarities to institutions that existed in prior historical systems to which we have given the same or similar names. But using the same name to describe institutions located in different historical systems quite often confuses rather than clarifies analysis. It is better to think of the set of institutions of the modern world-system as contextually specific to it.

Let us start with markets, since these are normally considered the essential feature of a capitalist system. A market is both a concrete local structure in which individuals or firms sell and buy goods, and a virtual institution across space where the same kind of exchange occurs. How large and widespread any virtual market is depends on the realistic alternatives that sellers and buyers have at a given time. In principle, in a capitalist world-economy the virtual market exists in the world-economy as a whole. But as we shall see, there are often interferences with these boundaries, creating narrower and more "protected" markets. There are of course separate virtual markets for all commodities as well as for capital and different kinds of labor. But over time, there can also be said to exist a single virtual world market for all the factors of production combined, despite all the barriers that exist to its free functioning. One can think of this complete virtual market as a magnet for all producers and buyers, whose pull is a constant political factor in the decision-making of everyone—the states, the firms, the households, the classes, and the status-groups (or identities). This complete virtual world market is a reality in that it influences all decision making, but it never functions fully and freely (that is, without interference). The totally free market functions as an ideology, a myth, and a constraining influence, but never as a day-to-day reality.

One of the reasons it is not a day-to-day reality is that a totally free market, were it ever to exist, would make impossible the endless accumulation of capital. This may seem a paradox because it is surely true that capitalism cannot function without markets, and it is also true that capitalists regularly say that they favor free markets. But capitalists in fact need not totally free markets but rather markets that are only partially free. The reason is clear. Suppose there really existed a world market in which all the factors of production were totally free, as our textbooks in economics usually define this—that is, one in which the factors flowed without restriction, in which there were a very large number of buyers and a very large number of sellers, and in which there was perfect information (meaning that all sellers and all buyers knew the exact state of all costs of production). In such a perfect market, it would always be possible for the buyers to bargain down the sellers to an absolutely minuscule level of profit (let us think of it as a penny), and this low level of profit would make the capitalist game entirely un-
interesting to producers, removing the basic social underpinnings of such a system.

What sellers always prefer is a monopoly, for then they can create a relatively wide margin between the costs of production and the sales price, and thus realize high rates of profit. Of course, perfect monopolies are extremely difficult to create, and rare, but quasi-monopolies are not. What one needs most of all is the support of the machinery of a relatively strong state, one which can enforce a quasi-monopoly. There are many ways of doing this. One of the most fundamental is the system of patents which reserves rights in an "invention" for a specified number of years. This is what basically makes "new" products the most expensive for consumers and the most profitable for their producers. Of course, patents are often violated and in any case they eventually expire, but by and large they protect a quasi-monopoly for a time. Even so, production protected by patents usually remains only a quasi-monopoly, since there may be other similar products on the market that are not covered by the patent. This is why the normal situation for so-called leading products (that is, products that are both new and have an important share of the overall world market for commodities) is an oligopoly rather than an absolute monopoly. Oligopolies are however good enough to realize the desired high rate of profits, especially since the various firms often collude to minimize price competition.

Patents are not the only way in which states can create quasi-monopolies. State restrictions on imports and exports (so-called protectionist measures) are another. State subsidies and tax benefits are a third. The ability of strong states to use their muscle to prevent weaker states from creating counter-protectionist measures is still another. The role of the states as large-scale buyers of certain products willing to pay excessive prices is still another. Finally, regulations which impose a burden on producers may be relatively easy to absorb by large producers but crippling to smaller producers, an asymmetry which results in the elimination of the smaller producers from the market and thus increases the degree of oligopoly. The modalities by which states interfere with the virtual market are so extensive that they constitute a fundamental factor in determining prices and profits. Without such interferences, the capitalist system could not thrive and therefore could not survive.

Nonetheless, there are two inbuilt anti-monopolistic features in a capitalist world-economy. First of all, one producer's monopolistic advantage is another producer's loss. The losers will of course struggle politically to remove the advantages of the winners. They can do this by political struggle within the states where the monopolistic producers are located, appealing to doctrines of a free market and offering support to political leaders inclined to end a particular monopolistic advantage. Or they do this by persuading other states to defy the world market monopoly by using their state power to sustain competitive producers. Both methods are used. Therefore, over time, every quasi-monopoly is undone by the entry of further producers into the market.

Quasi-monopolies are thus self-liquidating. But they last long enough (say thirty years) to ensure considerable accumulation of capital by those who control the quasi-monopolies. When a quasi-monopoly does cease to exist, the large accumulators of capital simply move their capital to new leading products or whole new leading industries. The result is a cycle of leading products. Leading products have moderately short lives, but they are constantly succeeded by other leading industries. Thus the game continues. As for the once-leading industries past their prime, they become more and more "competitive," that is, less and less profitable. We see this pattern in action all the time.

Firms are the main actors in the market. Firms are normally the competitors of other firms operating in the same virtual market. They are also in conflict with those firms from whom they purchase inputs and those firms to which they sell their products. Fierce intercapitalist rivalry is the name of the game. And only the strongest and the most agile survive. One must remember that bankruptcy, or absorption by a more powerful firm, is the daily bread of capitalist enterprises. Not all capitalist entrepreneurs succeed in accumulating capital. Far from it. If they all succeeded, each would be likely to obtain very little capital. So, the repeated "failures" of firms not only weed out the weak competitors but are a condition sine qua non of the endless accumulation of capital. That is what explains the constant process of the concentration of capital.

To be sure, there is a downside to the growth of firms, either horizontally (in the same product), vertically (in the different steps in the chain of production), or what might be thought of as orthogonally (into other products not closely related). Size brings down costs through so-called economies of scale. But size adds costs of administration and coordination, and multiplies the risks of managerial inefficiencies. As a result of this contradiction, there has been a repeated zigzag process of firms getting larger and then getting smaller. But it has not at all been a simple up-and-down cycle. Rather, worldwide there has been a secular increase in the size of firms, the whole historical process taking the form of a ratchet, two steps up then one step back, continuously. The size of firms also has direct political implications. Large size gives firms more political clout but also makes them more
vulnerable to political assault—by their competitors, their employees, and their consumers. But here too the bottom line is an upward ratchet, toward more political influence over time.

The axial division of labor of a capitalist world-economy divides production into core-like products and peripheral products. Core-periphery is a relational concept. What we mean by core-periphery is the degree of profitability of the production processes. Since profitability is directly related to the degree of monopolization, what we essentially mean by core-like production processes is those that are controlled by quasi-monopolies. Peripheral processes are those that are truly competitive. When exchange occurs, competitive products are in a weak position and quasi-monopolized products are in a strong position. As a result, there is a constant flow of surplus-value from the producers of peripheral products to the producers of core-like products. This has been called unequal exchange.

To be sure, unequal exchange is not the only way of moving accumulated capital from politically weak regions to politically strong regions. There is also plunder, often used extensively during the early days of incorporating new regions into the world-economy (consider, for example, the conquistadores and gold in the Americas). But plunder is self-liquidating. It is a case of killing the goose that lays the golden eggs. Still, since the consequences are middle-term and the advantages short-term, there still exists much plunder in the modern world-system, although we are often "scandalized" when we learn of it. When Enron goes bankrupt, after procedures that have moved enormous sums into the hands of a few managers, that is in fact plunder. When "privatizations" of erstwhile state property lead to its being garnered by mafia-like businessmen who quickly leave the country with destroyed enterprises in their wake, that is plunder. Self-liquidating, yes, but only after much damage has been done to the world's productive system, and indeed to the health of the capitalist world-economy.

Since quasi-monopolies depend on the patronage of strong states, they are largely located—juridically, physically, and in terms of ownership—within such states. There is therefore a geographical consequence of the core-peripheral relationship. Core-like processes tend to group themselves in a few states and to constitute the bulk of the production activity in such states. Peripheral processes tend to be scattered among a large number of states and to constitute the bulk of the production activity in these states. Thus, for shorthand purposes we can talk of core states and peripheral states, so long as we remember that we are really talking of a relationship between production processes. Some states have a near even mix of core-like and peripheral products. We may call them semiperipheral states. They have, as we shall see, special political properties. It is however not meaningful to speak of semiperipheral production processes.

Since, as we have seen, quasi-monopolies exhaust themselves, what is a core-like process today will become a peripheral process tomorrow. The economic history of the modern world-system is replete with the shift, or downgrading, of products, first to semiperipheral countries, and then to peripheral ones. If circa 1800 the production of textiles was possibly the preeminent core-like production process, by 2000 it was manifestly one of the least profitable peripheral production processes. In 1800 these textiles were produced primarily in a few countries (notably England and some other countries of northwestern Europe); in 2000 textiles were produced in virtually every part of the world-system, especially cheap textiles. The process has been repeated with many other products. Think of steel, or automobiles, or even computers. This kind of shift has no effect on the structure of the system itself. In 2000 there were other core-like processes (e.g. aircraft production or genetic engineering) which were concentrated in a few countries. There have always been new core-like processes to replace those which become more competitive and then move out of the states in which they were originally located.

The role of each state is very different vis-à-vis productive processes depending on the mix of core-peripheral processes within it. The strong states, which contain a disproportionate share of core-like processes, tend to emphasize their role of protecting the quasi-monopolies of the core-like processes. The very weak states, which contain a disproportionate share of peripheral production processes, are usually unable to do very much to affect the axial division of labor, and in effect are largely forced to accept the lot that has been given them.

The semiperipheral states which have a relatively even mix of production processes find themselves in the most difficult situation. Under pressure from core states and putting pressure on peripheral states, their major concern is to keep themselves from slipping into the periphery and to do what they can to advance themselves toward the core. Neither is easy, and both require considerable state interference with the world market. These semiperipheral states are the ones that put forward most aggressively and most publicly so-called protectionist policies. They hope thereby to "protect" their production processes from the competition of stronger firms outside, while trying to improve the efficiency of the firms inside so as to compete better in the world market. They are eager recipients of the relocation of erstwhile leading products, which they define these days as achieving "economic development." In this effort, their competition comes not from the core states.
but from other semiperipheral states, equally eager to be the recipients of relocation which cannot go to all the eager aspirants simultaneously and to the same degree. In the beginning of the twenty-first century, some obvious countries to be labeled semiperipheral are South Korea, Brazil, and India—countries with strong enterprises that export products (for example steel, automobiles, pharmaceuticals) to peripheral zones, but that also regularly relate to core zones as importers of more “advanced” products.

The normal evolution of the leading industries—the slow dissolution of the quasi-monopolies—is what accounts for the cyclical rhythms of the world-economy. A major leading industry will be a major stimulus to the expansion of the world-economy and will result in considerable accumulation of capital. But it also normally leads to more extensive employment in the world-economy, higher wage-levels, and a general sense of relative prosperity. As more and more firms enter the market of the erstwhile quasi-monopoly, there will be “overproduction” (that is, too much production for the real effective demand at a given time) and consequently increased price competition (because of the demand squeeze), thus lowering the rates of profit. At some point, a buildup of unsold products results, and consequently a slowdown in further production.

When this happens, we tend to see a reversal of the cyclical curve of the world-economy. We talk of stagnation or recession in the world-economy. Rates of unemployment rise worldwide. Producers seek to reduce costs in order to maintain their share of the world market. One of the mechanisms is relocation of the production processes to zones that have historically lower wages, that is, to semiperipheral countries. This shift puts pressure on the wage levels in the processes still remaining in core zones, and wages there tend to become lower as well. Effective demand which was at first lacking because of overproduction now becomes lacking because of a reduction in earnings of the consumers. In such a situation, not all producers necessarily lose out. There is obviously acutely increased competition among the diluted oligopoly that is now engaged in these production processes. They fight each other furiously, usually with the aid of their state machineries. Some states and some producers succeed in “exporting unemployment” from one core state to the others. Systemically, there is contraction, but certain core states and especially certain semiperipheral states may seem to be doing quite well.

The process we have been describing—expansion of the world-economy when there are quasi-monopolistic leading industries and contraction in the world-economy when there is a lowering of the intensity of quasi-monopoly—can be drawn as an up-and-down curve of so-called A- (expansion) and B- (stagnation) phases. A cycle consisting of an A-phase followed by a B-phase is sometimes referred to as a Kondratieff cycle, after the economist who described this phenomenon with clarity in the beginning of the twentieth century. Kondratieff cycles have up to now been more or less fifty to sixty years in length. Their exact length depends on the political measures taken by the states to avert a B-phase, and especially the measures to achieve recuperation from a B-phase on the basis of new leading industries that can stimulate a new A-phase.

A Kondratieff cycle, when it ends, never returns the situation to where it was at the beginning of the cycle. That is because what is done in the B-phase in order to get out of it and return to an A-phase changes in some important way the parameters of the world-system. The changes that solve the immediate (or short-run) problem of inadequate expansion of the world-economy (an essential element in maintaining the possibility of the endless accumulation of capital) restore a middle-run equilibrium but begin to create problems for the structure in the long run. The result is what we may call a secular trend. A secular trend should be thought of as a curve whose abscissa (or x-axis) records time and whose ordinate (or y-axis) measures a phenomenon by recording the proportion of some group that has a certain characteristic. If over time the percentage is moving upward in an overall linear fashion, it means by definition (since the ordinate is in percentages) that at some point it cannot continue to do so. We call this reaching the asymptote, or 100 percent point. No characteristic can be ascribed to more than 100 percent of any group. This means that as we solve the middle-run problems by moving up on the curve, we will eventually run into the long-run problem of approaching the asymptote.

Let us suggest one example of how this works in a capitalist world-economy. One of the problems we noted in the Kondratieff cycles is that at a certain point major production processes become less profitable, and these processes begin to relocate in order to reduce costs. Meanwhile, there is increasing unemployment in core zones, and this affects global effective demand. Individual firms reduce their costs, but the collectivity of firms finds it more difficult to find sufficient customers. One way to restore a sufficient level of world effective demand is to increase the pay levels of ordinary workers in core zones, something which has frequently occurred at the latter end of Kondratieff B-periods. This thereby creates the kind of effective demand that is necessary to provide sufficient customers for new leading products. But of course higher pay levels may mean lesser profits for the entrepreneurs. At a world level this can be compensated for by expanding the pool of wage workers elsewhere in the world, who are willing to work at a lower level of wages. This can be done by drawing new persons into the wage-labor pool, for whom the lower wage represents in fact an increase in...
real income. But of course every time one draws “new” persons into the wage-labor pool, one reduces the number of persons remaining outside the wage-labor pool. There will come a time when the pool is diminished to the point where it no longer exists effectively. We are reaching the asymptote. We shall return to this issue in the last chapter when we discuss the structural crisis of the twenty-first century.

Obviously, a capitalist system requires that there be workers who provide the labor for the productive processes. It is often said that these laborers are proletarians, that is, wage-workers who have no alternative means of support (because they are landless and without monetary or property reserves). This is not quite accurate. For one thing, it is unrealistic to think of workers as isolated individuals. Almost all workers are linked to other persons in household structures that normally group together persons of both sexes and of different age-levels. Many, perhaps most, of these household structures can be called families, but family ties are not necessarily the only mode by which households can be held together. Households often have common residences, but in fact less frequently than one thinks.

A typical household consists of three to ten persons who, over a long period (say thirty years or so), pool multiple sources of income in order to survive collectively. Households are not usually egalitarian structures internally nor are they unchanged structures (persons are born and die, enter or leave households, and in any case grow older and thus tend to alter their economic role). What distinguishes a household structure is some form of obligation to provide income for the group and to share in the consumption resulting from this income. Households are quite different from clans or tribes or other quite large and extended entities, which often share obligations of mutual security and identity but do not regularly share income. Or if there exist such large entities which are income-pooling, they are dysfunctional for the capitalist system.

We first must look at what the term “income” covers. There are in fact generically five kinds of income in the modern world-system. And almost all households seek and obtain all five kinds, although in different proportions (which turns out to be very important). One obvious form is wage-income, by which is meant payment (usually in money form) by persons outside the household for work of a member of the household that is performed outside the household in some production process. Wage-income may be occasional or regular. It may be payment by time employed or by work accomplished (piecework). Wage-income has the advantage to the employer that it is “flexible” (that is, continued work is a function of the employer’s need), although the trade union, other forms of syndical action by workers, and state legislation have often limited employers’ flexibility in many ways. Still, employers are almost never obligated to provide lifetime support to particular workers. Conversely, this system has the disadvantage to the employer that when more workers are needed, they may not be readily available for employment, especially if the economy is expanding. That is, in a system of wage-labor, the employer is trading not being required to pay workers in periods when they are not needed for the guarantee that the workers are available when they are needed.

A second obvious source of household income is subsistence activity. We usually define this type of work too narrowly, taking it to mean only the efforts of rural persons to grow food and produce necessities for their own consumption without passing through a market. This is indeed a form of subsistence production, and this kind of work has of course been on a sharp decline in the modern world-system, which is why we often say that subsistence production is disappearing. By using such a narrow definition, we are however neglecting the numerous ways in which subsistence activity is actually increasing in the modern world. When someone cooks a meal or washes dishes at home, this is subsistence production. When a homeowner assembles furniture bought from a store, this is subsistence production. And when a professional uses a computer to send an e-mail which, in an earlier day, a (paid) secretary would have typed, he or she is engaged in subsistence production. Subsistence production is a large part of household income today in the most economically wealthy zones of the capitalist world-economy.

A third kind of household income we might generically call petty commodity production. A petty commodity is defined as a product produced within the confines of the household but sold for cash on a wider market. Obviously, this sort of production continues to be very widespread in the poorer zones of the world-economy but is not totally absent anywhere. In richer zones we often call it free-lancing. This kind of activity involves not only the marketing of produced goods (including of course intellectual goods) but also petty marketing. When a small boy sells on the street cigarettes or matches one by one to consumers who cannot afford to buy them in the normal quantity that is packaged, this boy is engaged in petty-commodity production, the production activity being simply the disassembly of the larger package and its transport to the street market.

A fourth kind of income is what we can generically call rent. Rent can be drawn from some major capital investment (offering urban apartments for rent, or rooms within apartments) or from locational advantage (collecting a toll on a private bridge) or from capital ownership (clipping coupons on bonds, earning interest on a savings account). What makes it rent is that it is ownership and not work of any kind that makes possible the income.

Finally, there is a fifth kind of income, which in the modern world we call
transfer payments. These may be defined as income that comes to an individual by virtue of a defined obligation of someone else to provide this income. The transfer payments may come from persons close to the household, as when gifts or loans are given from one generation to the other at the time of birth, marriage, or death. Such transfer payments between households may be made on the basis of reciprocity (which in theory ensures no extra income over a lifetime but tends to smooth out liquidity needs). Or transfer payments may occur through the efforts of the state (in which case one’s own money may simply be returning at a different moment in time), or through an insurance scheme (in which one may in the end benefit or lose), or through redistribution from one economic class to another.

As soon as we think about it, we all are familiar with the income-pooling that goes on in households. Picture a middle-class American family, in which the adult male has a job (and perhaps moonlights at a second), the adult female is a caterer operating out of her home, the teenage son has a paper route, and the twelve-year-old daughter babysits. Add in perhaps the grandmother who draws a widow’s pension and who also occasionally babysits for a small child, and the room above the garage that is rented out. Or picture the working-class Mexican household in which the adult male has migrated to the United States illegally and is sending home money, the adult female is cultivating a plot at home, the teenage girl is working as a domestic (paid in money and in kind) in a wealthy Mexican’s home, and the subteen boy is peddling small items in the town market after school (or instead of school). Each of us can elaborate many more such combinations.

In actual practice, few households are without all five kinds of income. But one should notice right away that the persons within the household who tend to provide the income may correlate with sex or age categories. That is to say, many of these tasks are gender- and age-defined. Wage-labor was for a long time largely considered the province of males between the ages of fourteen or eighteen to sixty or sixty-five. Subsistence and petty-commodity production have been for the most part defined as the province of adult women and of children and the aged. State transfer income has been largely linked to wage earning, except for certain transfers relating to child rearing. Much political activity of the last hundred years has been aimed at overcoming the gender specificity of these definitions.

As we have already noted, the relative importance of the various forms of income in particular households has varied widely. Let us distinguish two major varieties: the household where wage-income accounts for 50 percent or more of the total lifetime income, and the household where it accounts for less. Let us call the former a “proletarian household” (because it seems to be heavily dependent on wage-income, which is what the term proletarian is supposed to invoke); and let us then call the latter a “semiproletarian household” (because there is doubtless at least some wage-income for most members of it). If we do this, we can see that an employer has an advantage in employing those wage-laborers who are in a semiproletarian household. Whenever wage-labor constitutes a substantial component of household income, there is necessarily a floor for how much the wage-earner can be paid. It must be an amount that represents at least a proportionate share of the reproduction costs of the household. This is what we can think of as an absolute minimum wage. If, however, the wage-earner is ensconced in a household that is only semiproletarian, the wage-earner can be paid a wage below the absolute minimum wage, without necessarily endangering the survival of the household. The difference can be made up by additional income provided from other sources and usually by other members of the household. What we see happening in such cases is that the other producers of income in the household are in effect transferring surplus-value to the employer of the wage-earner over and above whatever surplus-value the wage-earner himself is transferring, by permitting the employer to pay less than the absolute minimum wage.

It follows that in a capitalist system employers would in general prefer to employ wage-workers coming from semiproletarian households. There are however two pressures working in the other direction. One is the pressure of the wage-workers themselves who seek to be “proletarianized,” because that in effect means being better paid. And one is the contradictory pressure on the employers themselves. Against their individual need to lower wages, there is their collective longer-term need to have a large enough effective demand in the world-economy to sustain the market for their products. So over time, as a result of these two very different pressures, there is a slow increase in the number of households that are proletarianized. Nonetheless, this description of the long-term trend is contrary to the traditional social science picture that capitalism as a system requires primarily proletarians as workers. If this were so, it would be difficult to explain why, after four to five hundred years, the proportion of proletarian workers is not much higher than it is. Rather than think of proletarianization as a capitalist necessity, it would be more useful to think of it as a locus of struggle, whose outcome has been a slow if steady increase, a secular trend moving toward its asymptote.

There are classes in a capitalist system, since there are clearly persons who are differently located in the economic system with different levels of income who have differing interests. For example, it is obviously in the interest of workers to seek an increase in their wages, and it is equally obviously in the interest of employers to resist these increases, at least in general. But, as we have just seen, wage-workers are ensconced in households. It makes no sense
to think of the workers belonging to one class and other members of their household to another. It is obviously households, not individuals, that are located within classes. Individuals who wish to be class-mobile often find that they must withdraw from the households in which they are located and locate themselves in other households, in order to achieve such an objective. This is not easy but it is by no means impossible.

Classes however are not the only groups within which households locate themselves. They are also members of status-groups or identities. (If one calls them status-groups, one is emphasizing how they are perceived by others, a sort of objective criterion. If one calls them identities, one is emphasizing how they perceive themselves, a sort of subjective criterion. But under one name or the other, they are an institutional reality of the modern world-system.) Status-groups or identities are ascribed labels, since we are born into them, or at least we usually think we are born into them. It is on the whole rather difficult to join such groups voluntarily, although not impossible. These status-groups or identities are the numerous “peoples” of which all of us are members—nations, races, ethnic groups, religious communities, but also genders and categories of sexual preferences. Most of these categories are often alleged to be anachronistic leftovers of pre-modern times. This is quite wrong as a premise. Membership in status-groups or identities is very much a part of modernity. Far from dying out, they are actually growing in importance as the logic of a capitalist system unfolds further and consumes us more and more intensively.

If we argue that households locate themselves in a class, and all their members share this location, is this equally true of status-groups or identities? There does exist an enormous pressure within households to maintain a common identity, to be part of a single status-group or identity. This pressure is felt first of all by persons who are marrying and who are required, or at least pressured, to look within the status-group or identity for a partner. But obviously, the constant movement of individuals within the modern world-system plus the normative pressures to ignore status-group or identity membership in favor of meritocratic criteria have led to a considerable mixing of original identities within the framework of households. Nonetheless, what tends to happen in each household is an evolution toward a single identity, the emergence of new, often barely articulated status-group identities that precisely reify what began as a mixture, and thereby reunify the household in terms of status-group identities. One element in the demand to legitimate gay marriages is this felt pressure to reunify the identity of the household.

Why is it so important for households to maintain singular class and status-group identities, or at least pretend to maintain them? Such a homogenization of course aids in maintaining the unity of a household as an income-pooling unit and in overcoming any centrifugal tendencies that might arise because of internal inequalities in the distribution of consumption and decision making. It would however be a mistake to see this tendency as primarily an internal group defense mechanism. There are important benefits to the overall world-system from the homogenizing trends within household structures.

Households serve as the primary socializing agencies of the world-system. They seek to teach us, and particularly the young, knowledge of and respect for the social rules by which we are supposed to abide. They are of course seconded by state agencies such as schools and armies as well as by religious institutions and the media. But none of these come close to the households in actual impact. What however determines how the households will socialize their members? Largely how the secondary institutions frame the issues for the households, and their ability to do so effectively depends on the relative homogeneity of the households—that is, they have and see themselves as having a defined role in the historical social system. A household that is certain of its status-group identity—its nationality, its race, its religion, its ethnicity, its code of sexuality—knows exactly how to socialize its members. One whose identity is less certain but that tries to create a homogenized, even if novel, identity can do almost as well. A household that would openly avow a permanently split identity would find the socialization function almost impossible to do, and might find it difficult to survive as a group.

Of course, the powers that be in a social system always hope that socialization results in the acceptance of the very real hierarchies that are the product of the system. They also hope that socialization results in the internalization of the myths, the rhetoric, and the theorizing of the system. This does happen in part but never in full. Households also socialize members into rebellion, withdrawal, and deviance. To be sure, up to a point even such antisystemic socialization can be useful to the system by offering an outlet for restless spirits, provided that the overall system is in relative equilibrium. In that case, one can anticipate that the negative socializations may have at most a limited impact on the functioning of the system. But when the historical system comes into structural crisis, suddenly such antisystemic socializations can play a profoundly unsettling role for the system.

Thus far, we have merely cited class identification and status-group identification as the two alternative modes of collective expression for households. But obviously there are multiple kinds of status-groups, not always totally consonant one with the other. Furthermore, as historical time has moved on, the number of kinds of status-groups has grown, not diminished. In the late twentieth century, people often began to claim identities in terms of
of sexual preferences which were not a basis for household construction in previous centuries. Since we are all involved in a multiplicity of status-groups or identities, the question arises whether there is a priority order of identities. In case of conflicts, which should prevail? Which does prevail? Can a household be homogeneous in terms of one identity but not in terms of another? The answer obviously is yes, but what are the consequences?

We must look at the pressures on households coming from outside. Most of the status-groups have some kind of trans-household institutional expression. And these institutions place direct pressure on the households not merely to conform to their norms and their collective strategies but to give them priority. Of the trans-household institutions, the states are the most successful in influencing the households because they have the most immediate weapons of pressure (the law, substantial benefits to distribute, the capacity to mobilize media). But wherever the state is less strong, the religious structures, the ethnic organizations, and similar groups may become the strongest voices insisting on the priorities of the households. Even when status-groups or identities describe themselves as antisystemic, they may still be in rivalry with other antisystemic status-groups or identities, demanding priority in allegiance. It is this complicated turmoil of household identities that underlies the roller coaster of political struggle within the modern world-system.

The complex relationships of the world-economy, the firms, the states, the households, and the trans-household institutions that link members of classes and status-groups are beset by two opposite—but symbiotic—ideological themes: universalism on the one hand and racism and sexism on the other.

Universalism is a theme prominently associated with the modern world-system. It is in many ways one of its boasts. Universalism means in general the priority to general rules applying equally to all persons, and therefore the rejection of particularistic preferences in most spheres. The only rules that are considered permissible within the framework of universalism are those which can be shown to apply directly to the narrowly defined proper functioning of the world-system.

The expressions of universalism are manifold. If we translate universalism to the level of the firm or the school, it means for example the assigning of persons to positions on the basis of their training and capacities (a practice otherwise known as meritocracy). If we translate it to the level of the household, it implies among other things that marriage should be contracted for reasons of "love" but not those of wealth or ethnicity or any other general particularism. If we translate it to the level of the state, it means such rules as universal suffrage and equality before the law. We are all familiar with the mantras, since they are repeated with some regularity in public discourse. They are supposed to be the central focus of our socialization. Of course, we know that these mantras are unevenly advocated in various locales of the world-system (and we shall want to discuss why this is so), and we know that they are far from fully observed in practice. But they have become the official gospel of modernity.

Universalism is a positive norm, which means that most people assert their belief in it, and almost everyone claims that it is a virtue. Racism and sexism are just the opposite. They too are norms, but they are negative norms, in that most people deny their belief in them. Almost everyone declares that they are vices, yet nonetheless they are norms. What is more, the degree to which the negative norms of racism and sexism are observed is at least as high as, in fact for the most part much higher than, the virtuous norm of universalism. This may seem to be an anomaly. But it is not.

Let us look at what we mean by racism and sexism. Actually these are terms that came into widespread use only in the second half of the twentieth century. Racism and sexism are instances of a far wider phenomenon that has no convenient name, but that might be thought of as anti-universalism, or the active institutional discrimination against all the persons in a given status-group or identity. For each kind of identity, there is a social ranking. It can be a crude ranking, with two categories, or elaborate, with a whole ladder. But there is always a group on top in the ranking, and one or several groups at the bottom. These rankings are both worldwide and more local, and both kinds of ranking have enormous consequences in the lives of people and in the operation of the capitalist world-economy.

We are all quite familiar with the worldwide rankings within the modern world-system: men over women, Whites over Blacks (or non-Whites), adults over children (or the aged), educated over less educated, heterosexuals over gays and lesbians, the bourgeois and professionals over workers, urbanites over rural dwellers. Ethnic rankings are more local, but in every country, there is a dominant ethnicity and then the others. Religious rankings vary across the world, but in any particular zone everyone is aware of what they are. Nationalism often takes the form of constructing links between one side of each of the antinomies into fused categories, so that, for example, one might create the norm that adult White heterosexual males of particular ethnicities and religions are the only ones who would be considered "true" nationals.

There are several questions which this description brings to our attention. What is the point of professing universalism and practicing anti-universalism simultaneously? Why should there be so many varieties of anti-universalism?
Is this contradictory antinomy a necessary part of the modern world-system? Universalism and anti-universalism are in fact both operative day to day, but they operate in different arenas. Universalism tends to be the operative principle most strongly for what we could call the cadres of the world-system—neither those who are at the very top in terms of power and wealth, nor those who provide the large majority of the world’s workers and ordinary people in all fields of work and all across the world, but rather an in-between group of people who have leadership or supervisory roles in various institutions. It is a norm that spells out the optimal recruitment mode for such technical, professional, and scientific personnel. This in-between group may be larger or smaller according to a country’s location in the world-system and the local political situation. The stronger the country’s economic position, the larger the group. Whenever universalism loses its hold even among the cadres in particular parts of the world-system, however, observers tend to see dysfunction, and quite immediately there emerge political pressures (both from within the country and from the rest of the world) to restore some degree of universalistic criteria.

There are two quite different reasons for this. On the one hand, universalism is believed to ensure relatively competent performance and thus make for a more efficient world-economy, which in turn improves the ability to accumulate capital. Hence, normally those who control production processes push for such universalistic criteria. Of course, universalistic criteria arouse resentment when they come into operation only after some particularistic criterion has been invoked. If the civil service is only open to persons of some particular religion or ethnicity, then the choice of persons within this category may be universalistic but the overall choice is not. If universalistic criteria are invoked only at the time of choice while ignoring the particularistic criteria by which individuals have access to the necessary prior training, again there is resentment. When, however, the choice is truly universalistic, resentment may still occur because choice involves exclusion, and we may get “populist” pressure for untested and unranked access to position. Under these multiple circumstances, universalistic criteria play a major social-psychological role in legitimating meritocratic allocation. They make those who have attained the status of cadre feel justified in their advantage and ignore the ways in which the so-called universalistic criteria that permitted their access were not in fact fully universalistic, or ignore the claims of all the others to material benefits given primarily to cadres. The norm of universalism is an enormous comfort to those who are benefiting from the system. It makes them feel they deserve what they have.

On the other hand, racism, sexism, and other anti-universalistic norms within the modern world-system. They seem to imply exclusions from the social arena. Actually they are really modes of inclusion, but of inclusion at inferior ranks. These norms exist to justify the lower ranking, to enforce the lower ranking, and perversely even to make it somewhat palatable to those who have the lower ranking. Anti-universalistic norms are presented as codifications of natural, eternal verities not subject to social modification. They are presented not merely as cultural verities but, implicitly or even explicitly, as biologically rooted necessities of the functioning of the human animal.

They become norms for the state, the workplace, the social arena. But they also become norms into which households are pushed to socialize their members, an effort that has been quite successful on the whole. They justify the polarization of the world-system. Since polarization has been increasing over time, racism, sexism, and other forms of anti-universalism have become ever more important, even though the political struggle against such forms of anti-universalism has also become more central to the functioning of the world-system.

The bottom line is that the modern world-system has made as a central, basic feature of its structure the simultaneous existence, propagation, and practice of both universalism and anti-universalism. This antinomic duo is as fundamental to the system as is the core-peripheral axial division of labor.
The Rise of the States-System

Sovereign Nation-States, Colonies, and the Interstate System

The modern state is a sovereign state. Sovereignty is a concept that was invented in the modern world-system. Its prima facie meaning is totally autonomous state power. But modern states in fact exist within a larger circle of states, what we have come to call the interstate system. So we shall have to investigate the degree and the content of this presumed autonomy. The historians talk of the emergence of the "new monarchies" in England, France, and Spain at the end of the fifteenth century, at just the moment of onset of the modern world-system. As for the interstate system, its ancestry is usually attributed to the development of Renaissance diplomacy on the Italian peninsula, and its institutionalization is usually thought to be the Peace of Westphalia in 1648. Westphalia, signed by most of the states of Europe, codified certain rules of interstate relations that set limits to as well as guarantees of relative autonomy. These rules were elaborated and expanded later under the rubric of international law.

The new monarchies were centralizing structures. That is, they sought to ensure that regional power structures were effectively subordinated to the overall authority of the monarch. And they sought to ensure this by strengthening (really by creating) a civil and military bureaucracy. Most crucially, they sought to give themselves strength by securing some significant taxing powers with enough personnel actually to collect the taxes.

In the seventeenth century, the rulers of these new monarchies declared themselves "absolute" monarchs. This seems to suggest that they had unlimited power. In actual fact they lacked not only unlimited power but very much power at all. Absolute monarchs merely claimed the right to have unlimited power. The term "absolute" comes from the Latin absolutus, which meant not that the monarch is all-powerful but that the monarch is not subject to (is absolved from) the laws and therefore cannot be legitimately constrained by any human from doing what the ruler thinks best. This allowed for arbitrary power, but it didn't mean that the monarch had effective power, which as we have said was relatively low. To be sure, the states sought through the centuries to overcome this lack of real power, and they had a certain amount of success in achieving this. Consequently, one of the secular trends of the modern world-system from its beginning (at least until about the 1970s, as we shall see) was a slow, steady increase in real state power. If we compare the real power (ability to get decisions actually carried out) of Louis XIV of France (who reigned 1661-1715) with say the prime minister of Sweden in the year 2000, we will see that the latter had more real power in Sweden in 2000 than Louis in France in 1715.

The major tool that the monarchs used to increase their effective power was the construction of bureaucracies. And since they at first did not have the tax revenues with which to pay for bureaucracies, they found a solution in the sale of offices, which gave the monarchs an increase in both bureaucrats and revenue—and therefore some additional power, albeit less than if they had been able to recruit bureaucrats directly, as they would at later times. Once the rulers had a minimal bureaucracy in place, they sought to use it to give the states control over all sorts of political functions: tax collection, the courts, legislation, and enforcement agencies (police and army). At the same time, they sought to eliminate or at least limit the autonomous authority of local notables in all these fields. They also sought to create an informational network to make sure that their intentions were respected. The French elaborated the institution of prefects—persons who represented the central state and were resident in the various parts of the country—and this institution was emulated in various ways by almost all modern states.

Sovereignty was a claim of authority not only internally but externally—that is, vis-à-vis other states. It was first of all a claim of fixed boundaries, within which a given state was sovereign, and therefore within which no other state had the right to assert any kind of authority—executive, legislative, judicial, or military. To be sure, these claims of the states that other states should not "interfere" in their domestic affairs have always been more honored in the breach than sedulously observed. But the mere claim has nonetheless served to constrain the degree of interference. Nor have borders been unchanging. Border claims between states have been constant and
Quebecois first came to power in Quebec in 1976, it had...
to political struggle, both internally within states and internationally between states. From the point of view of entrepreneurs operating in the capitalist world-economy, the sovereign states assert authority in at least seven principal arenas of direct interest to them: (1) States set the rules on whether and under what conditions commodities, capital, and labor may cross their borders. (2) They create the rules concerning property rights within their states. (3) They set rules concerning employment and the compensation of employees. (4) They decide which costs firms must internalize. (5) They decide what kinds of economic processes may be monopolized, and to what degree. (6) They tax. (7) Finally, when firms based within their boundaries may be affected, they can use their power externally to affect the decisions of other states. This is a long list, and just looking at it makes one realize that from the point of view of firms, state policies are crucial.

The relationship of states to firms is a key to understanding the functioning of the capitalist world-economy. The official ideology of most capitalists is laissez-faire, the doctrine that governments should not interfere with the working of entrepreneurs in the market. It is important to understand that as a general rule, entrepreneurs assert this ideology loudly but do not really want it to be implemented, or at least not fully, and certainly do not usually act as though they believed it was sound doctrine.

Let us start with boundaries. A sovereign state has in theory the right to decide what may cross its boundaries, and under what conditions. The stronger the state, the larger its bureaucratic machinery and therefore the greater its ability to enforce decisions concerning trans-boundary transactions. There are three principal kinds of trans-boundary transactions: the movement of goods, of capital, and of persons. Sellers wish for their goods to traverse boundaries without interference and without taxation. On the other hand, competing sellers within the boundaries being entered may very much want the state to interfere by imposing quotas or tariffs, or by giving subsidies to their own products. Any decision that the state takes favors one entrepreneur or the other. There does not exist a neutral position. The same is true of capital flows.

The trans-boundary movement of persons has always been the most closely controlled, and of course concerns firms in that it concerns workers. In general, the influx of workers from one country to another is a market plus for entrepreneurs in the receiving country and a market minus for those already resident in the receiving country, if one uses a simple short-run supply and demand model. This leaves out of the picture two elements that may very much be central to the debate: the impact on the internal social structure of any given country of immigration; and the long-run economic impact of immigration (which might be quite positive even if the short-run impact is quite negative, at least for some persons). Once again, there exists no neutral position.

Property rights are of course the centerpiece of the capitalist system. There is no way to accumulate capital endlessly unless one can hold on to the capital that one has accumulated. Property rights are all those laws which limit the ways in which the state can confiscate the money, extended kin can lay claim to a share in the money, and others can steal the money. In addition, the capitalist system operates on the basis of a minimum level of reciprocal trust in the honesty of transactions, and thus preventing fraud is a major social requirement. This is all so obvious that it seems scarcely worth saying. But of course the key actor in this protection of property rights is the state, which alone has the legitimate right to set the rules. Obviously, none of these rights are without some limits. And of course there are many actions whose description as protected property rights is a matter of debate. Differences lead to conflicts which must then be adjudicated—by the courts of the states. But without some state-guaranteed protections, the capitalist system cannot function at all.

Entrepreneurs have long acted, and still often do act, as if the arena in which they are most anxious that the state abstain from setting rules is the workplace. They are particularly concerned about all matters governing their relation to those they employ—levels of recompense, conditions of work, length of the work week, assurances of safety, and modes of hiring and firing. Workers, on the contrary, have long demanded that the state interfere in precisely these questions to help them achieve what they consider reasonable work situations. Obviously such state interference tends to strengthen workers in the short run in their conflicts with employers, so their approbation is usually a given. But many entrepreneurs have also seen that in the long run, state interference may be of use to them as well. Ensuring long-term labor supply, creating effective demand, and minimizing social disorder may all be in part consequences of such state interference in the workplace. Consequently a certain amount of interference may be very welcome to employers—at least to those which are larger and are operating according to longer-run perspectives.

One of the less noticed corners in which the state’s role is crucial to firms is in deciding what proportion of the costs of production is actually paid by the firm. Economists speak quite often of costs being externalized. What this means is that a certain part of the costs of production are shifted from the balance sheet of the firm to that amorphous external entity, society. The possibility of externalizing costs may seem to run counter to a basic premise of capitalist activity. Presumably a firm produces for profit, the profit consisting of the difference between sales receipts and costs of production. The
profit is then a reward for efficient production. The tacit assumption—and the moral justification of the profits—is that the producer is paying all the costs.

In practice, however, it does not work that way. The profit is a reward not merely for efficiency but for greater access to the assistance of the state. Few producers pay all the costs of their production. There are three different costs that are normally externalized in significant measure: costs of toxicity; costs of exhaustion of materials; costs of transport. Almost all production processes involve some kind of toxicity, that is, some kind of residual damage to the environment, whether it is disposal of material or chemical waste, or simply long-term transformation of the ecology. The least expensive way for a producer to deal with waste is to cast it aside, outside its property. The least expensive way to deal with transformation of the ecology is to pretend it isn't happening. Both ways reduce the immediate costs of production. But these costs are then externalized, in the sense that either immediately or, more usually, much later, someone must pay for the negative consequences, by means of either a proper cleanup or restitution of the ecology. This someone is everyone else—the taxpayers in general, through their instrumentality the state.

The second mode of externalizing costs is to ignore the exhaustion of materials. In the end, all production processes use some primary materials, organic or inorganic, which are part of the transformation processes that result in a “final” good sold on the market. Primary materials are exhaustible, some quite speedily, some extremely slowly, most at some intermediate pace. Once again, replacement costs are almost never part of the internalized costs of production. Thus eventually, the world has either to renounce the use of such materials or seek to replace them in some way. In part, it does so by innovation, and one can make an argument that in this case the economic cost of non-replacement is small or nil. But in many other cases this is not possible, and then the state must step in once again to engage in the process of restoring or re-creating the materials, and this is of course paid for by someone other than those who pocketed the profits. A good example of materials that have not been adequately replaced is the world wood supply. The forests of Ireland were cut down in the seventeenth century. And throughout the history of the modern world-system, we have been cutting down forests of all kinds without replacing them. Today we discuss the consequences of not protecting what is considered the world wood supply. The forests of Ireland were cut down in the seventeenth century. And throughout the history of the modern world-system, we have been cutting down forests of all kinds without replacing them. Today we discuss the consequences of not protecting what is considered the last major rain forest in the entire world, the Amazon area in Brazil.

Finally, there is the cost of transport. While it is true that firms generally pay fees for transporting goods coming to them or from them, they seldom pay the full costs. Creating the necessary infrastructure of transportation—bridges, canals, railway networks, airports—represents a very large cost, and this cost is normally borne, in large part, not by the firms which make use of the infrastructure but by the collectivity. The justification is that the costs are so massive, and the reward for an individual firm so small, that the infrastructure would never come into existence without a large input of costs from the state. This may well be true, if perhaps exaggerated, but it is further evidence of the critical role of state involvement in the process of the endless accumulation of capital.

We have already discussed how central the creation of monopolies or rather quasi-monopolies are to the accumulation of capital. We need only remember that every decision to make possible a quasi-monopoly of any kind, whatever the mechanism, represents an advantage to some but a disadvantage to others. Here as elsewhere, there exist no neutral positions for the state in enabling capital accumulation. For capital accumulation is always capital accumulation by particular persons, firms, or entities. And competition between capitalists is unavoidable in a capitalist system.

In discussions of state “interference” with firms, it is most often noted that states tax. Of course they do. They could not exist without taxation. And we have noticed how the most crucial element in the establishment of the state structures was acquiring not the authority but the effective ability to tax. No one, it is said, likes taxes. In fact the opposite is true, although few avow it. Everyone—firms and workers alike—wants the things that states can offer them with the money that the states have obtained through taxation. There are basically two problems that people have with taxes. One is the feeling or suspicion that the states are using the taxes not to help the honest taxpayers we all assume ourselves to be, but to help others (the politicians, the bureaucrats, rival firms, the poor and undeserving, even foreigners). To this extent we wish taxes to be lower, and these undesirable uses of the taxes to cease. The second complaint about taxes is of course true: the money that is taxed is money that otherwise would have been available to each person to spend at his or her own discretion. So basically, one is yielding control over this money to some collective body, which is deciding how to spend it.

In point of fact, most people and most firms are willing to be taxed in order to provide the minimum services that each person and each firm thinks will serve its interests. But no one is willing, or ready, to be taxed more than that. The question is always the location of the line which separates legitimate from illegitimate levels of taxation. Since persons and firms have different interests, they draw the line differently. And since, in addition to the amount of taxes, the state can and does choose among a vast array of modes of taxation, persons and firms prefer those modes which affect them least and others most. It is no wonder then that taxes are certain and that tax...
struggles are endemic to politics in the modern world. The state cannot be neutral, but it can certainly affect seriously the benefits that firms and persons will derive from its tax policies.

Finally, we have been discussing the role of the state in relation to firms as though this were a matter internal to the state's boundaries. But of course, firms are affected by the decisions not only of their own state but of many other states, insofar as their goods, capital, or personnel cross or have crossed state boundaries, a process that is constant and massive. Few firms can afford to be indifferent to the policies of states which are not their own, in terms of domiciliation. The question is how the firms can deal with these other states. And the answer is in two ways—directly and indirectly. The direct way is to behave as though they were domiciled in the other state, and to use all the mechanisms and arguments they would use with their own— bribery, political pressure, exchange of advantages. This may suffice, but often the "foreign" firm is at a considerable disadvantage in the local political arena. If the "foreign" firm is domiciled in a "strong" state, it can appeal to its own state to use state power to put pressure on the other state to get it to accede to the needs and demands of the strong state's entrepreneurs. And of course, this process is central to the life of the interstate system. In the last third of the twentieth century, U.S. manufacturers of automobiles and steel, and airlines, were not shy about asking the U.S. government to pressure Japan and western Europe to change their policies in ways that would improve the position of U.S. manufacturers and the access that U.S. air carriers had to transoceanic traffic rights.

The large majority of the population in any state is accounted for by the households of those who work for the firms and other organizations. The capitalist system provides for a certain mode of dividing up the surplus-value that is produced, and obviously at any given moment this is a zero-sum game. The larger the portion allocated to the accumulation of capital, the smaller the one that can be allocated as compensation for those who work for the production units creating this surplus-value. One of the basic realities is that this division of the surplus-value has some limits (it cannot be 100 percent one way and 0 percent the other), but the gamut of possibilities in between is very large, certainly in the short run, and even in the longer run, up to a point.

It follows logically that there will be a constant struggle over this allocation of the surplus-value. This is what has been called the class struggle. Whatever one feels about the politics of the class struggle, it is an unavoidable analytic category, which can be verbally disguised but never ignored. And it is quite clear that in this ongoing class struggle (which is no doubt a very complex phenomenon, with no simple binary distribution of loyalties), the state is a central actor in shifting the allocation in one direction or the other. Hence, both sides organize politically to put pressure on the state as an executive and legislative structure. If one takes a long view of the internal politics of the multiple states throughout the history of the capitalist world-economy, one can see that it took quite a while, several centuries, before the working strata were able to organize themselves sufficiently to play the political game with any minimal degree of efficacy.

The historic turning-point was undoubtedly the French Revolution. For the French Revolution brought about the two fundamental changes in the geoculture of the modern world-system that we have already noted: it made change, political change, into a "normal" phenomenon, something inherent in the nature of things and in fact desirable. This was the political expression of the theory of progress that was so central to Enlightenment ideas. And secondly, the French Revolution reoriented the concept of sovereignty, from the monarch or the legislature to the people. When the genie of the people as sovereign escaped from the bottle, it would never be put back inside. It became the common wisdom of the entire world-system.

One of the central consequences of the idea that the people were sovereign is that the people were now defined as "citizens." Today, the concept is so elementary that we find it hard to understand how radical was the shift from "subjects" to "citizens." To be a citizen meant to have the right to participate, on an equal level with all other citizens, in the basic decisions of the state. To be a citizen meant that there were no persons with statuses higher than that of citizen (such as aristocrats). To be a citizen meant that everyone was being accepted as a rational person, capable of political decision. The logical consequence of the concept of citizen was universal suffrage. And as we know, the political history of the following 150 years was one of steady expansion of the suffrage in country after country.

Today, virtually every country claims that its citizens are all equal, and exercise their sovereignty through a system of universal suffrage. Except we know that in reality this is not really so. Only part of the population exercises the full rights of citizenship in most countries. For if the people are sovereign, we must then decide who falls within the category of the people, and many, it turns out, are excluded. There are some exclusions which seemed "obvious" to most people: those who are merely visitors to the country (aliens); those who are too young to have judgment; those who are insane. But what about women? And persons from minority ethnic groups? And those without property? And those who are imprisoned as felons? Once one starts on the path of enumerating the exceptions to the term "people," the list can get very long. The "people," which began as a concept of inclusion, turned rather quickly into a concept of exclusion.
As a consequence, the politics of inclusion and exclusion became a centerpiece of national politics throughout the following two centuries. Those who were excluded sought to be included, and those who were already included were most often inclined to keep eligibility for citizens’ rights defined narrowly, maintaining the exclusions. This meant that those who were seeking inclusion had to organize outside the parliamentary channels defined narrowly, maintaining the exclusions. This meant that those who were included were most often inclined to keep eligibility for citizens’ rights in order for their cause to be heard. That is, quite simply, they had to engage in demonstrative, rebellious, sometimes revolutionary activity.

This led to a great strategic debate among the powerful in the early nineteenth century. On the one hand, there were those whose fears led them to feel that these movements had to be stopped (and indeed the very idea of popular sovereignty rejected). They called themselves conservatives and extolled “traditional” institutions—the monarchy, the church, the notables, the family—as bulwarks against change. But opposed to them was another group which thought that this strategy was doomed to failure, and that only by accepting the inevitability of some change could they limit the speed and the speed of the change. This group called themselves liberals, and they extolled the educated individual as the model citizen and the specialist as the only person who could wisely determine the details of social and political decisions. They argued that all others should slowly be admitted to full citizens’ rights when their education had become sufficient to enable them to make balanced choices. By embracing progress, the liberals sought to frame its definition in such a way that the “dangerous classes” would become less dangerous and those with “merit” would play the key roles in political, economic, and social institutions. There was of course a third group, the radicals, who would associate themselves with the antisystemic movements, indeed lead them for the most part.

In this trinity of ideologies that emerged in the wake of the French Revolution—conservatism, liberalism, and radicalism—it was the centrist liberals who succeeded in dominating the scene in the world-system, at least for a very long time. Their program of modulated change would be enacted everywhere, and they would persuade both the conservatives and the radicals to modulate their positions such that both conservatives and radicals came in practice to be virtual avatars of centrist liberalism.

The politics of all these movements were affected by the strength of the states in which they were located. As we know, some states are stronger than other states. But what does it mean to be a strong state internally? Strength certainly is not indicated by the degree of arbitrariness or ruthlessness of the central authority, although this is a frequent criterion that many observers use. Dictatorial behavior by state authorities is more often a sign of weakness than of strength. Strength of states is most usefully defined as the ability to get legal decisions actually carried out. (Remember our earlier example of Louis XIV versus a contemporary prime minister of Sweden.) One simple measure that one might use is the percentage of taxes levied that are actually collected and reach the taxing authority. Tax evasion is of course pandemic. But the difference between what strong states can collect (somewhere near 80 percent) and what weak states can collect (more like 20 percent) is enormous. The lower figure is explained by a weaker bureaucracy, and the inability to collect taxes in turn deprives the state of the funds with which to strengthen the bureaucracy.

The weaker the state, the less wealth can be accumulated through economically productive activities. This consequently makes the state machinery itself a prime locus, perhaps the prime locus, of wealth accumulation—through larceny and bribery, at high and low levels. It is not that this does not occur in strong states—it does—but that in weak states it becomes the preferred means of capital accumulation, which in turn weakens the ability of the state to perform its other tasks. When the state machinery becomes the main mode of capital accumulation, all sense of regular transfer of office to successors becomes remote, which leads to wildly falsified elections (if any are held at all) and rambunctious transfers of power, which in turn necessarily expands the political role of the military. States are, in theory, the only legitimate users of violence and should possess the monopoly of its use. The police and military are the prime vehicle of this monopoly, and in theory are merely instruments of state authorities. In practice, this monopoly is diluted, and the weaker the state, the more it is diluted. As a result it is very difficult for political leaders to maintain effective control of the country, and this in turn increases the temptation for the military to take control of the executive directly whenever a regime seems unable to guarantee internal security. What is crucial to note is that these phenomena are not the result of wrong policies but of the endemic weakness of state structures in zones where the large majority of production processes are peripheral and are therefore weak sources of capital accumulation. In states that have raw materials which are very lucrative on the world market (such as oil), the income available to the states is essentially rent, and here too the actual control of the machinery guarantees that much of the rent can be siphoned off into private hands. It is no accident then that such states fall frequently into situations in which the military assumes direct rule.

Finally, we should underline the degree to which weakness means the relative strength of local notables (barons, warlords) who are able to enforce their control over non-state regions by control of some local military forces, combined often with some local legitimation (of ethnicity or traditional family or aristocratic dominance). In the twentieth century, some of this
local authority came to be acquired by movements that began as national antisystemic movements and, in the course of struggle, transmuted themselves into local feildoms. Such local baronies tend to bring out the mafioso side of capitalist entrepreneurial activity. Mafias are basically predators that feed on the production process. When there are non-monopolized products, which are not highly profitable for the individual firm, one of the few ways in which one can accumulate large sums of capital is to establish a monopolistic funnel through which production passes, and to do so by the use of non-state force. Mafias are notorious for their involvement in illegal products (such as drugs) but are often involved in quite legal forms of production activity as well. And mafia-style capitalist activity is of course dangerous and inherently life-threatening to the mafias themselves. Hence historically mafiosi, once successful in accumulating capital, seek (often in the very next generation) to launder their money and transform themselves into legal entrepreneurs. But of course wherever tight state control breaks down or is limited, there are always new mafias that emerge.

One of the ways in which states try to reinforce their authority and to become stronger and diminish the role of mafias is to transform their population into a “nation.” Nations are to be sure myths in the sense that they are all social creations, and the states have a central role in their construction. The process of creating a nation involves establishing (to a large degree inventing) a history; a long chronology, and a presumed set of defining characteristics (even if large segments of the group included do not in fact share those characteristics).

We should think of the concept “nation-state” as an asymptote toward which all states aspire. Some states claim that they do not, that they are “multinational,” but in fact even such states seek to create a pan-state identity. A good example is the Soviet Union which, when it existed, claimed that it was multinational, but also promoted the idea of a “Soviet” people. The same is true of Switzerland or Canada. Nationalism is a status-group identity, perhaps the one most crucial to maintaining the modern world-system, based as it is on a structure of sovereign states located within an interstate system. Nationalism serves as the minimal cement of state structures. If one looks closely, nationalism is not a phenomenon merely of weak states. It is in fact extremely strong in the wealthiest states, even if it is publicly invoked less frequently than in states of middling strength. Once again, the pursuit of nationalist themes on the part of state leaders should be analyzed as an attempt to strengthen the state, not evidence that the state is already strong. Historically, the states have had three main modes of creating nationalism: the state school system, service in the armed forces, and public ceremonies. All three are in constant use.

States, as we have emphasized, exist within the framework of an interstate system, and their relative strength is not merely the degree to which they can effectively exercise authority internally but the degree to which they can hold their heads high in the competitive environment of the world-system. All states are theoretically sovereign, but strong states find it far easier to “intervene” in the internal affairs of weaker states than vice versa, and everyone is aware of that.

Strong states relate to weak states by pressuring them to keep their frontiers open to those flows of factors of production that are useful and profitable to firms located in the strong states, while resisting any demands for reciprocity in this regard. In the debates on world trade, the United States and the European Union are constantly demanding that states in the rest of the world open their frontiers to flows of manufactures and services from them. They however quite strongly resist opening fully their own frontiers to flows of agricultural products or textiles that compete with their own products from states in peripheral zones. Strong states relate to weak states by pressuring them to install and keep in power persons whom the strong states find acceptable, and to join the strong states in placing pressures on other weak states to get them to conform to the policy needs of the strong states. Strong states relate to weak states by pressuring them to accept cultural practices—linguistic policy; educational policy, including where university students may study; media distribution—that will reinforce the long-term linkage between them. Strong states relate to weak states by pressuring them to follow their lead in international arenas (treaties, international organizations). And while strong states may buy off the individual leaders of weak states, weak states as states buy the protection of strong states by arranging appropriate flows of capital.

Of course, the weakest states are those we call colonies, by which we mean administrative units that are defined as non-sovereign and fall under the jurisdiction of another state, normally distant from it. The origin of modern colonies is in the economic expansion of the world-system. In this expansion, strong states at the core tried to incorporate new zones into the processes of the modern world-system. Sometimes they encountered bureaucratic units which were strong enough to become defined as sovereign states even if not strong enough to stay out of the expanding world-system. But often the militarily strong states (mostly located in western Europe, but the United States, Russia, and Japan must be added to the list) encountered areas where the political structures were quite weak. To ensure the incorporation of such areas into the world-system in a satisfactory manner, these areas were conquered and colonial regimes installed.

The colonies performed internally the same kinds of functions that sov-
States were semiperipheral states. These states, of intermediate strength, spent their energy running very fast in order at the very least to stay in their intermediate position normally in between the two types. Against the other in a sort of putative zero-sum game, they have a common interest in holding together the interstate system. The result, as might be expected, is structures that are relatively strong state in the world-system as a whole. So the actors are pushed simultaneously in opposite directions: toward an anarchic interstate system and toward a coherent and orderly interstate system. The result, as might be expected, is structures that are normally in between the two types.

In this contradictory struggle, we should not neglect the special role of the semiperipheral states. These states, of intermediate strength, spend their energy running very fast in order at the very least to stay in their intermediate place, but hoping as well that they may rise on the ladder. They use state power in the internal and interstate arena quite consciously to raise the status of their state as a producer, as an accumulator of capital, and as a military force. Their choice is ultimately quite simple: either they will succeed in moving up the hierarchical ladder (or at least staying put) or they will be pushed down.

They must choose their alliances and their economic opportunities carefully and swiftly. For semiperipheral states are primarily in competition with each other. If, for example, during a Kondratieff B-phase there is significant relocation of an erstwhile leading industry, it will usually go to semiperipheral countries. But not, however, to all of them; perhaps only to one or two of them. There is not enough space in the production structure of the whole system to permit this kind of relocation (called “development”) simultaneously in too many countries. Which one of perhaps fifteen countries will be the locus of such relocation is not easy to determine in advance or even to explain in retrospect. What is easy to grasp is that not every country can be so favored, or profits would plummet downward too rapidly and too steeply.

The competition between strong states and the efforts of semiperipheral states to increase their status and their power result in an ongoing interstate rivalry which normally takes the form of a so-called balance of power, by which one means a situation in which no single state can automatically get its way in the interstate arena. This does not mean that the stronger states do not attempt to achieve precisely this degree of power. There are however two quite different ways in which states might realize dominance. One is to transform the world-economy into a world-empire. The second is to obtain what may be called hegemony in the world-system. It is important to distinguish the two modalities, and to understand why no state has been able to transform the modern world-system into a world-empire but several states have, at different times, achieved hegemony.

By a world-empire we mean a structure in which there is a single political authority for the whole world-system. There have been several serious attempts to create such a world-empire in the last five hundred years. The first was that of Charles V in the sixteenth century (continued in weakened form by his heirs). The second was that of Napoleon at the beginning of the nineteenth century. The third was that of Hitler in the mid-twentieth century. The fourth was that of the United States in the mid-twentieth century. What allows us to call them hegemonic
is that for a certain period they were able to establish the rules of the game in the interstate system, to dominate the world-economy (in production, commerce, and finance), to get their way politically with a minimal use of military force (which however they had in goodly strength), and to formulate the cultural language with which one discussed the world.

There are two questions to ask. The first is why transforming the world-economy into a world-empire was never possible, whereas achieving hegemony within it was. The second is why hegemony never lasted. In a sense, given all our previous analysis, it is not too difficult to answer these puzzles. We have seen that the peculiar structure of a world-economy (a single division of labor, multiple state structures albeit within an interstate system, and of course multiple cultures albeit with a geoculture) is peculiarly consonant with the needs of a capitalist system. A world-empire, on the other hand, would in fact stifle capitalism, because it would mean that there was a political structure with the ability to override a priority for the endless accumulation of capital. This is of course what had happened repeatedly in all the world-empires that had existed before the modern world-system. Thus, whenever some state seemed intent on transforming the system into a world-empire, it found that it faced eventually the hostility of most important capitalist firms of the world-economy.

How then could states even achieve hegemony? Hegemony, it turns out, can be very useful to capitalist firms, particularly if these firms are linked politically with the hegemonic power. Hegemony typically occurs in the wake of a long period of relative breakdown of world order in the form of "thirty years' wars"—wars, that is, that implicate all the major economic loci of the world-system and have historically pitted an alliance grouped around the putative constructor of a world-empire against an alliance grouped around a putative hegemonic power. Hegemony creates the kind of stability within which capitalist enterprises, especially monopolistic leading industries, thrive. Hegemony is popular with ordinary people in that it seems to guarantee not merely order but a more prosperous future for all.

Why not then hegemony forever? As with quasi-monopolies in production, quasi-absolute power in hegemonies self-destructs. To become a hegemonic power, it is crucially important to concentrate on efficiencies of production which lay the base for the hegemonic role. To maintain hegemony, the hegemonic power must divert itself into a political and military role, which is both expensive and abrasive. Sooner or later, usually sooner, other states begin to improve their economic efficiencies to the point where the hegemonic power's superiority is considerably diminished, and eventually disappears. With that goes its political clout. And it is now forced to actually use its military power, not merely threaten to do so, and its use of military power is not only the first sign of weakness but the source of further decline. The use of "imperial" force undermines the hegemonic power economically and politically, and is widely perceived as a sign not of strength but of weakness, first externally then internally. Far from defining the world cultural language, a declining hegemonic power begins to find its preferred language out of date and no longer readily acceptable.

As a hegemonic power declines, there are always others who attempt to replace it. But such replacement takes a long time, and ultimately another "thirty years' war." Hence hegemony is crucial, repeated, and always relatively brief. The capitalist world-economy needs the states, needs the interstate system, and needs the periodic appearance of hegemonic powers. But the priority of capitalists is never the maintenance, much less the glorification, of any of these structures. The priority remains always the endless accumulation of capital, and this is best achieved by an ever-shifting set of political and cultural dominances within which capitalist firms maneuver, obtaining their support from the states but seeking to escape their dominance.