RETHINKING DECLINE OF HEGEMONY:

A Historical Comparison Between British and American Financialization

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Abstract

The main purpose of this thesis is to analyse the relationship between financialization and the decline of hegemonic powers. While dominant views in the literature suggest that financialization leads to the decline of hegemonic powers based on historical comparison of the British hegemony between 1870-1890 and American hegemony between 1970-1990, this research argues these two cases are both conceptually and qualitatively different. There are three main shortcomings of the literature. First, they offer state-centric explanations of the decline of hegemonic powers. Second, they separate economics and politics. And finally, the role of ideology is overlooked. Conceptualizing financialization from a neo-Gramscian theoretical framework and rethinking the decline of hegemonic powers through this framework offers a holistic understanding of the congruence between financialization and the decline of hegemonic powers. The main argument of this thesis is that class struggle causes financialization which causes the decline of the hegemonic historical bloc but only if financialization occurs as an outward movement. In this respect, this research offers a fresh conceptualization of financialization as outward and inward financialization. The outward financialization that British hegemony has experienced result in the decline of the hegemonic historical bloc, the inward financialization of the American hegemony during the 1970s resulted in the reconfiguration of social forces in the US and the expansion of neoliberal social relations of production under the aegis of American hegemony. Overall, this research focuses on the period of 1870-1890 and 1970-1990 with a specific focus on the change in the social relations of production, ideology, and institutions from a neo-Gramscian theoretical framework that allows considering the special relationship between the state and civil society as well as the economic and political.

To Selin, the joy of my life.

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Abbreviations

A.A.A.	Agricultural Adjustment Act
AALL	American Association for Labour Legislation
AFBF	American Farm Bureau Federation
AFL	American Federation of Labour
BAC	Business Advisory Council
CED	Committee on Economic Development
CIA	Central Intelligence Agency
EEC	European Economic Community
FDI	Foreign Direct Investments
FED	Federal Reserve System
GAB	General Arrangement to Borrow
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
HST	Hegemonic Stability Theory
IMF	International Monetary Fund
IR	International Relations
ITO	International Trade Organization
MNC	Multinational Corporations
NCF	National Civic Federation
NIRA	National Industrial Recovery Act
NLB	National Labour Board

NRA	National Recovery Administration
OECD	Organization for Economic Cooperation
RFC	Reconstruction Finance Corporation
RTAA	Reciprocal Trade Agreements Act
WPA	Work Progress Administration
WTO	World Trade Organization

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Chapter One: Introduction

> Man is above all else mind, consciousness that is, he is a product of history, not nature.
>
> Antonio Gramsci

The main purpose of this thesis is to analyse the relationship between financialization and the decline of hegemony. To achieve this end, this thesis aims to construct a neo-Gramscian account of the decline of British hegemony between 1870-1890 and the US hegemony between 1970-1990, with a specific focus on the material, ideological and institutional realms. By comparing the decline patterns of British and American hegemony, this thesis challenges the oft-referred mainstream approaches, which predict that financialization in both cases leads to an inevitable and irreversible decline of hegemonic powers.

Financialization is a popular concept in the field of political science, international relations (IR) and economics. Critically, it has different connotations for different disciplines. While in some studies the term implies economic technicality, in others it refers to political, institutional, even cultural forces mediating between finance and production (Lapavitsas 2003). In a strictly economic sense, financialization refers to a "pattern of accumulation in which profit-making occurs increasingly through financial channels" rather than the production of commodities and trade (Krippner 2005, 173). This accumulation regime has been preferred after further investment in production becomes obsolete because of the diminishing returns of further investment, intensified competition, and a decrease in the profit rates. However, for this thesis, financialization means more than an economic technicality. Instead of limiting financialization to the realm of the economy, this thesis aims to shed light on the agency of different class fractions during the financialization period. Briefly, financialization in this thesis is regarded as a hegemonic struggle between different class fractions caused by a change in the social relations of production.

Social relations of production is concerned with the social context within which the decisions regarding the actual production process, division of labour and the distribution of the outcomes of the production process are taken (Cox 1981; 1987). In the establishment phase of hegemony, it is the productive forces that take decisions about the production, determine the division of labour as well as the distribution of the wealth. However, financialization alters this mode of social relations of production and cause a further struggle between productive and financial forces. This thesis argues that the financialization periods in Britain and the USA marked a transformation in the material, ideological and institutional foundations of the hegemonic world order that they have established. While the dominant approaches suggest that these two cases of financialization are similar, this thesis argues that they are conceptually different which could only be understood with a neo-Gramscian conceptual framework.

The term hegemony is one of the most used and contested concepts in the social sciences. It is fundamental to understand cultural, ideological, political and economic relations among different class fractions and states. In this thesis, hegemony refers to a form of power linked to a class rule that is broadly based on consent with the ideas sustained by material capabilities, and institutions that are established by the social struggle within the state which leads to profound social and economic change and projected outwards on a world scale (Morton 2003, 156; Bieler and Morton 2004, 87; Morton 2007, 113). This definition allows this thesis to offer an alternative answer to the question of why British hegemony declined during the 1870s after experiencing financialization, while the US hegemony has remained strong after having undergone financialization during the 1970s. Instead of taking financialization in its narrowest economic sense, the neo-Gramscian conceptual framework allows this thesis to offer a holistic conceptualization of the financialization and its effects on the British and American hegemony by focusing on the effects of financialization on the class structure, state formation, and world order levels.

This thesis construes financialization as a form of social relations of production that is central to understand the hegemonic struggle between different class fractions and the starting point in analysing the operation and mechanism of hegemony (Cox 1987, 3-8; Morton 2007, 116). The role of social relations production in financialization and the decline of hegemonic power is quite central to this thesis. Production in this conceptualization is not limited to the economistic understanding of the term but rather it "covers the production and reproduction of knowledge and of the social relations, morals and institutions" (Cox 1989, 39). By starting the analysis with production allows consideration of how a variety of social relationships generated in the production become bases of power in the state and world order (Cox 1987, 4). In this perspective social change, or in other words hegemonic rise and decline, is linked to the change in the mode of production. Change in the mode of production is directly linked to change in the existing mode of social relations of production. And by identifying different modes of social relations of production, it is possible to analyse how a change in the mode of production gives rise to particular class fractions (Cox 1987, 4). If the contending social forces successfully establish a hegemonic historical bloc in their struggle with other class fractions, then there may occur mutually reinforcing transformations in forms of states and world order (Bieler and Morton 2004, 88). Moreover, change in the social relations of production give rise to new configurations of social forces upon which the state power rests (Bieler and Morton 2004, 82). Critically, this state power is not directly ensured by sanctions, punishments, or crude force but confirmed by the broad consensual acceptance of the ruling system by the masses. Hegemonic historical bloc operates through its ideological power and sustains this power by institutionalizing within the state structure.

This section briefly introduced the main aim of the thesis. The next section discusses the research questions and the main hypothesis of the thesis. The conceptual framework is then discussed. After the conceptual framework, the case selection and methodology of the thesis will be discussed. The final section of this chapter discusses the organization of the thesis.

1.1 Research Questions

The main research question of this thesis is as follows: what is the relation between financialization and the decline of hegemonic powers? In order to answer the question in hand comprehensively, this thesis focuses on two important sub-questions: (1) what are the underlying material, ideological, and institutional factors that led to financialization in Britain during 1870s and in the USA during 1970s; and (2) why did British hegemony decline after experiencing financialization while American hegemony has not declined as dominant approaches argue after financialization?

This thesis focuses on the issue of whether the oft-referred assumption of "financialization leads to decline" is valid for both British and American cases and whether decline occurs in material, ideological and institutional realms after financialization. Investigating the change in social relations of production before and after the financialization periods of these hegemonic powers would test the validity of this assumption as well as offer a better understanding of the class struggle that underpins the decline and/or transformation of the hegemonic power. Therefore, this question targets three different but connected spheres of activity: social relations of production, forms of state, and world order. Analysing social relations of production denotes the class contestation for hegemonic power; by analysing forms of state it is possible to understand the social basis of the state power and state-civil society relations; analysing world orders will help us to understand the outward expansion of a particular mode of social relations of production and the interests of leading classes (Bieler and Morton 2004).

1.2 Conceptual Approach

Rise and decline of hegemonic powers have been subject to great scrutiny in academia. In this thesis, those studies concerned with the decline of hegemonic powers are divided into two groups: state-centric and class-centric approaches. The clear distinction between these two approaches is based on the fact that while state-centric approaches explain the decline of hegemonic power by measuring the economic and/or military power of a state, class-centric approaches the same phenomenon through the reconfiguration of class forces. There are three main shortcomings of the state-centric approaches that have been identified in the literature review section. First, these approaches offer a materially deterministic account that argues that financialization leads to an irreversible decline of hegemony. this deterministic analysis gives no role whatsoever to the ideological power of the hegemony. Secondly, state-centric approaches ignore the agency of different class fractions in the making of financialization. This is quite problematic since state-society relations are crucial in explaining social change. Third, there is a dualist tendency of these approaches that separate state and civil society, economics and politics that prevents a holistic explanation of decline phenomenon. These approaches limit the production to the generation of material wealth. Therefore, inseparable relation between the realm of politics and economics, state and civil society is missing in these studies. However, it is possible to offer a holistic analysis of the decline of hegemonic powers by adopting an approach that offers an amalgamated reading of civil society and state which starts its analysis from the social relations of production.

The dualism of economics and politics that is embedded in the analysis of financialization brings a deterministic understanding of the decline of hegemony. This thesis argues that an alternative conceptualization of financialization through a neo-Gramscian framework that includes analyses of social relations of production, ideas and institutions could overcome the shortcomings of the literature. First, the problematic nature of the conceptualization is rooted in the separation of politics and economics in general and separation of state and market relations in particular. This understanding reduces the market to a technical arena in which the state intervenes externally (Burnham 1995, 136). Moreover, rigid separation of the economic and political extracted social and political ramifications of capitalism and reduced capitalism to a technical arena. However, a neo-Gramscian reading of financialization would reject the separation between economic and political, and base and superstructure. Hegemony in the neo-Gramscian perspective, instead, refers to a dialectical unity between these two spheres, the dialectical interaction between the base and superstructure which represents itself as the relations between social forces in a society (Lefebvre 2009, 60).

Secondly, state-centric literature disregards the agency of classes and social relations of production as the result of the separation of the political and the economic (Bieler 2011). However, starting our inquiry with the social relations production allows us to understand the configurations of social forces which manifest itself in the financialization process. Moreover, conceptualizing financialization with a neo-Gramscian framework as a form of social relations of production would offer a better understanding of the decline of hegemony. While separation of economics and politics reads financialization and production process in its narrowest sense and considers them as economic technicalities and offers an ahistorical analysis of social change, a historical materialist analysis of social change could offer a holistic analysis of the decline of hegemony by adding the struggle of different class fractions within the state.

Finally, the neo-Gramscian conceptual framework is not only useful to understand the role of class fractions and the interplay between the political and the economic, and the state and civil society but also it allows us to understand the role of ideas and institutions which manifests itself within the supremacy of a ruling class. The concept of hegemony in the neo-Gramscian sense is defined as

> … a coherent conjunction or fit between a configuration of material power, the prevalent collective image of world order and set of institutions which administer the order with a certain semblance of universality (i.e. not just as the overt instruments of a particular state's dominance) (Cox 1981, 139)

The neo-Gramscian conceptualization of hegemony allows this thesis to understand how hegemonic struggle between different class fractions is pivotal in explaining financialization and the conjunction between the material power, ideology, and institutions. This perspective ensures that power is not only reduced to the material aspects of state power.

1.3 Case Selection and Methodology

The congruence between financialization and decline of hegemonic powers cannot be conceptualized holistically by the neo-realist, neo-liberal institutionalist and world-system approaches as they cannot move beyond the structural changes within the constants that they have taken for granted (Bieler and Morton 2003). This rigid methodological application ignores the role of class struggle and the agency of different class fractions in the making of financialization. Therefore, this thesis employs a neo-Gramscian historical materialist approach to answer the puzzle set before. First, the Gramscian approach "is an epistemological and ontological critique of the empiricism and positivism" (Gill 1993, 22). It utilizes historical specificities to explain, to shed light complex social phenomena. Gramsci's historicism is

> …loose and elastic and attain precision only when brought into contact with particular situation which it helps to explain – a contact which also develops the meaning of the concept. (Cox 1993, 50).

This approach is a form of "non-structuralist historicism" which is consistent with the idea of historical structures that are partly formed by the action of individuals and groups (Gill 1993, 22). In other words, this thesis employs a historically grounded analysis of financialization and its relationship with the decline of hegemonic powers, as an alternative to the "timeless, placeless models of social organization and social change" (Tilly 1984, 2).

This thesis aims to conceptualize financialization from a neo-Gramscian vantage point by analysing both the collective actions of individuals and groups that are defined as capital class fractions and the historical social structures defined as historical blocs. It is crucial to understand the symbiotic relationship between the structure and agency because the change in the social structure is gradual and "has always taken place in the past, conditioning agency in the present" (Bieler and Morton 2001, 21). In order to achieve this end, this thesis employs incorporated comparison methodology which is used to "conceptualize variations across time and space when time and space dimensions are neither separate nor uniform" (McMichael 1990, 386). The goal is not to develop hypotheses by using historical-comparative methodology but to reveal the interconnectedness of social phenomena and give a substance to a historical process through comparison (McMichael 1990, 385-86). This historical materialist perspective focuses on the multifaceted character of a social configuration in its historical context by looking at the system and its components from the bottom upwards, as well as the top downwards in a dialectical way rather than looking at its replication over and across time (Gill 1993, 25).

In this thesis, hegemony is understood as a form of power that is broadly based on consent, with the acknowledgment of the ideas sustained by material capabilities, and institutions, which is established by the social struggle within the state that leads to profound social and economic change and then projected outwards on a world scale (Morton 2003; Bieler and Morton 2004; Morton 2007). Therefore, an empirical analysis should analyse material, ideological and institutional aspects that have led to social change. By doing so, it will be possible to understand the true nature of the financialization process holistically without promoting economic over political or vice versa. The starting point of an empirical inquiry is to understand the change in the social relations of production. Specifically, starting from social relations of production allows us to understand both the material side of the social change and the class struggle to control production relations. The success of an emergence of a historical bloc over social relations of production depends on the promotion of hegemonic ideas. Secondly, an examination of the dominant ideology during the formation of historical bloc allows us to comprehend how the dominant mode of production is entrenched by hegemonic ideas. Finally, after analysing how a historical bloc emerges ideologically around a dominant mode of production, this research explores how the historical bloc institutionalizes their rules and norms through the control of the state and civil society. In short, it is argued that material, ideological, and institutional areas of empirical inquiry are mainly the places of class struggle for hegemonic ascendency and the production/reproduction of a consent-based hegemonic order.

As discussed earlier, the main aim of this thesis is to understand the relation between financialization and the decline of hegemonic powers. The literature suggests that there are only two contemporary cases of hegemonic ascendency; Britain and the USA (Kindleberger 1973, Gilpin 1975, Krasner 1976, Wallerstein and Hopkins 1979, Cox 1981, Overbeek 1990, van der Pijl 1993, Arrighi 1994, Chase-Dunn 1998). Moreover, both of these two cases of hegemonic eras witnessed a period of financialization; Britain during the 1870s and the USA during the 1970s. Some argue that there is a causal relationship between financialization and the decline of hegemonic powers and financialization leads to the decline of hegemony (Gilpin 1981, Wallerstein 1984a, Arrighi 1994). Critically, the USA has not declined after experiencing financialization as those have anticipated. A secondary question that this thesis aims to answer arises from this argument: why British hegemony declined after experiencing financialization while American hegemony maintained its power after financialization? By using the singular form of incorporated comparison this thesis analyses variations of financialization across space within specific historical conjunctures. This methodology allows this thesis to offer an alternative understanding of the financialization as this methodology views "comparable social phenomena as differentiated outcomes or moments of an historically integrated process" (McMichael 1990, 391).

The starting point of the empirical inquiry is to understand the change in the mode of production. The focus here is how the change in the mode of production causes a change in the material base and the (re)formation of the historical bloc. In this phase, first, the mode of production and its relationship with the overall production process is analysed with relation to the labour process and class struggle.

Secondly, in this part change in the output per capita, productivity, trade and investment data are analysed to understand how the change in the material realm has an impact on the existing hegemonic historical bloc. In the second part of the empirical analysis, change in the ideological setting is analysed in relation to change in the social relations of production. Change in the ideological setting is traced through examining changes in the laws, regulations, and institutions that govern how production is planned and executed. For this, secondary sources are used to grasp how the leading scholars', public figureheads' and influential politicians' ideas are shaped through time in favour of certain social relations of production. Finally, the focus is on the institutionalization of the hegemonic ideas within the state and civil society through the analysis of the laws, regulations, and institutions that govern the political economy of the production, trade, and finance. Analysing the class struggle to attain hegemonic power within the state and civil society in these three different but interrelated realms offer an alternative analysis of financialization and its congruence with the decline.

Finally, it is important to discuss how the decline is understood and measured in this thesis. Briefly, there are two different measurements of the decline of hegemonic powers in the literature; absolute and relative decline. Joseph Nye (1988, 106) defines absolute decline as "society's loss of cohesion and inventiveness generally". The relative decline, on the other hand, is measured by relative economic decline or explained by external challenges to the existing economic and/or military power of a state. Since the conceptual framework of this thesis aims to understand the social change within Britain and the USA, measuring absolute decline offers a more comprehensive understanding of the relation between financialization and decline. In this framework, the decline of a historical bloc is measured by the tripartite conceptual framework that has explained earlier; change in the mode of production, change in the ideological setting, and change in the institutional setting. The class struggle analysis emerged from this framework unravels whether a hegemonic power has declined or not. The class analysis aims to study class formation, class struggle, and the historical process of social change (Wight 1985, 37). This analysis has three important components: the conditions of class struggle; class goals, organization, and strategies; and the consequences of class struggle from both micro and macro perspectives (So 1991, 39).

1.4 Contribution

First, this thesis contributes to the growing body of the neo-Gramscian literature by conceptualizing financialization as a form of social relations of production. in this conceptualization financialization depends on two major dynamics which is evident in both cases: different class fractions that form a hegemonic historical bloc under a common set of interests, which is based on the dynamics of production relations at the beginning; different agents of productive, commodity and money capital class fractions, which organize the state and civil society around their symbiotic sets of goals. In this establishment phase, the previous dominant social relations of production and the previously hegemonic historical bloc is replaced by a new historical bloc. In both cases, productive class fractions become the motor force of the establishment of a new historical bloc within the state and civil society. However, with the diminishing returns of further investment in production and the intensified competition because of sustained overcapacity, decreasing profit rates, decreasing economic growth leads to an intense struggle between the class fraction that has previously established a hegemonic historical bloc. This situation, in return, creates a conflict within the historical bloc as financial class fractions challenge existing norms and rules of the system. In other words, due to the decline of profit rates and ever-increasing inter capitalist competition, finance capital class fractions push forward for financialization.

Secondly, financialization in British case was first led by financial elites or agents of high finance and later state structure defended money capital's interests nationally and internationally. However, in the case of American hegemony, it was the American state that pushed financialization through national and international financial institutions and merged the interests of productive, commodity and finance capital class fractions. While in British case financialization represent a fierce class struggle within which the state sided with finance capital, in the American case, the state managed to maintain a harmony of interest between different class fractions. Moreover, while British financialization definitely leads to the decline of British hegemony, American financialization has reversed the decline of American hegemony.

Third, this thesis conceptualizes British financialization as 'outward financialization' and American financialization as 'inward financialization'. In the outward financialization, there is an outward capital movement in which finance capital class fractions invest their capital in other developing countries where their investments yield higher profits. This outward movement of capital, in return, hinders the industrial base of the hegemonic power. Outward financialization creates a new accumulation regime based on financial means which replaces existing productive social relations of production. Prior to outward financialization, capitalist accumulation occurred through the utilization of finance capital towards productive ends in the industry. However, with the financialization interests of the class fractions which previously formed a historical bloc disintegrates and struggle within the hegemonic historical bloc starts. While productive and commodity capital class fractions pursue protectionist policies, financial class fractions pursue trade liberalization or even a unilateral free trade regime pursued by Britain at the expense of its industrial base. In short, outward financialization which was led by financial capital class fractions in Britain not only undermined relative economic power of the British hegemony, but also the ideological and institutional settings that enhanced and preserved British power nationally and internationally.

Inward financialization, on the other hand, entails a unity of interest among different class fractions that constitute a historical bloc even though the previous dominant economic setting has changed. Unlike British outward financialization, what American hegemony have experienced during the 1970s was inward financialization, in which the American state governed the process with the help of formal and informal national and international institutions. Moreover, after inward financialization, the American economy overcame the profitability problem of the industrial production which allowed American productive capital class fractions to compote internationally by decreasing the wage burden by relocating their operations to other countries where wages were low and there was almost no resistance of the working class. However, this relocation was fundamentally different than British outward capital movement. Unlike British financial capital class fractions outward capital movement, American foreign investments sustained an inward capital movement in which finance capital moved from other major capitalist countries as well as OPEC countries to the USA and caught American economic decline.

To conclude, this thesis found no causal correlation between the financialization and decline of hegemonic powers. Historical comparison of British and American financialization shows that financialization might occur in different trajectories and it is not antagonistic with the maintenance of a hegemonic order nationally or internationally.

1.5 Structure of the thesis

There are eight chapters in this thesis. The first chapter provides an overall introduction to the thesis. In the second chapter, there is a critical literature review in which first the concept of power has been scrutinized with the help of Steven Lukes' (2005) conceptual framework. This part discusses the definition of hegemony as a form of power in two common categories: hegemony as domination and hegemony as leadership. This discussion unravels why a neo-Gramscian understanding of hegemony provides a better framework to understand the rise and decline of hegemonic powers. Finally, the second chapter discusses the declinist literature and its shortcomings. In short, there three important shortcomings of the literature are identified. First, the realm of politics and economics are considered separate which results in two exclusive accounts of decline. Secondly, The third chapter conceptualizes financialization from a neo-Gramscian perspective which is an alternative to the declinist literature. After addressing the importance of the shortcomings of the literature in the beginning briefly, this chapter introduces key neo-Gramscian concepts: social relations of production, historical bloc, state, and civil society, and passive revolution. After discussing these concepts in detail, the third chapter conceptualizes financialization as a form of social relations of production. Moreover, this chapter discusses the limitations of this conceptual framework. Finally, this chapter provides a transitory part to the empirical part which aims to connect the literature review and conceptual framework to the empirical setting of the thesis.

The fourth chapter is the first empirical chapter of the British case. This chapter focuses on the material, ideological and institutional foundations of the British hegemony at the beginning of the 19^{th} century. The first section of this chapter briefly discusses mercantilist historical bloc and the mercantilist social relations of production. This section is followed by the hegemonic struggle between the mercantilist historical bloc and cosmopolitan free trade historical bloc. This is crucial as only after this struggle new hegemonic setting established itself within the state and civil society. Finally, this section unravels how British hegemony expands internationally.

The fifth chapter is the second empirical chapter of the British case. While the fourth chapter reveals the rise of cosmopolitan free trade historical bloc and expansion of the British hegemony, this chapter focuses on the class struggle that led to financialization and its impact on the British hegemony after the great depression of 1873. The first part of the chapter focuses on the economic reasons for the decline and the struggle between different class fractions over protectionism and free trade imperialism and how these class fractions aligned themselves during this reconfiguration of social forces. Finally, this chapter explains the relationship between outward financialization and the decline of British hegemony with a specific reference to the role of the British state in the making of financialization.

The sixth chapter is the first empirical chapter of the American case. The first part of the chapter offers a historical account of the rise of American hegemony prior to the financialization period which started after the 1970s. This part analyses how the class struggle between different class fractions in terms of their stance towards protectionism and free trade. The second part of this chapter discusses the impact of Keynesian politics in the making of American led world order. This part also presents how class struggle within the historical bloc intensified prior to financialization. Finally, this section explores how American hegemony expanded internationally and formed a hegemonic world order.

The seventh chapter is the final empirical chapter of the thesis. This chapter analyses how financialization occurred in the USA during the 1970s and the role of the American state in the making of financialization.

Chapter Two: Hegemony and the issue of the decline in the literature

> Throughout the 17th century and the 18th century and the 19th century, this continent teemed with manifold projects and magnificent purposes. Above them all and weaving them all together into the most exciting flag of all the world and of all history was the triumphal purpose of freedom. It is in this spirit that all of us are called, each to its own measure of capacity, and each in the widest horizon of his vision, to create the first great American Century.
>
> Henry Luce (1941, 65)

It has been almost eight decades after the famous quotation of Henry Luce who foresaw the rise of the US hegemony even before the Second World War. However, only after two decades of the end of the Second World War that have marked the undeniable supremacy of the US, the first declinist thesis has emerged and from that time onwards the decline of American power has become one of the most controversial topics in the literature. Over the past forty years, scholars have questioned the root cause of the rise and fall of hegemonic powers concerning the American power from different perspectives (Kindleberger 1973; Gilpin 1981; Wallerstein 1984; Kennedy 1987; Arrighi 1994). The declinist debates first unfolded after the second part of the 1960s, augmented during the 1970s and matured in the 1980s and rises to occasion whenever an economic crisis occurs. The main rationale behind the declinist literature is based on the historical experience of the British decline after the 1870s.

The purpose of this chapter is to review the literature on the concept of hegemony, the decline of hegemony, and financialization. The first part of the chapter presents the historical development of the concept of hegemony. this section categorizes the existing literature on hegemony into three distinctive categories by using the 'three faces of power' analytical framework developed by Steven Lukes. Lukes's (1974) interacting and intersecting typologies of power provides a comprehensive analytical tool to understand how hegemony has been framed in the literature as a form of power. Moreover, the interpretation of these typologies unravels the domination/leadership dyad in the literature. Critically, these typologies are limited to the realist political economy, world-system theory, and Gramscian understanding of hegemony as these three approaches are predominantly focused on explaining the social change in Britain and the US by using the concept of hegemony. The second part of the chapter focuses on the literature on the decline of hegemonic powers from a historical perspective. It is this part that explores the premise of financialization leads to a decline in the literature and how this is used to formulate so-called American decline. Finally, this section provides a brief discussion of anti-declinist literature and explains how this thesis offers a fresh alternative to the literature.

2.1 What is Hegemony?

The concept of hegemony is one of the most used and contested terms in the social sciences. Hegemony is fundamental to understand a broad range of relationships such as cultural, ideological, political and economic relations among and withing classes and states and it explains how the international system functions. Hence, there is a need to 'rethink' what hegemony means in IR as Owen Worth (2015) rightfully points out and lays down what this concept stands for in this thesis.

The concept of hegemony has been used to understand two different patterns of relations. First, this concept has been used to understand the relationship between the dominant state and the rest. For example, while the Merriam-Webster dictionary defines hegemony as "control over another country", the Oxford dictionary defines the concept as "leadership, especially by one state in a confederacy". Secondly, the concept of hegemony has been utilized to understand the relationship between dominant and subordinate social formation, ideology, and culture in a given society. These two different explanations of hegemony reflect itself in the literature as well. Especially, the unclear use of the concept as domination and/or leadership creates confusion that should be clarified. This section aims to provide the historical development of the concept of hegemony with a specific focus on the dyad of domination/leadership. Moreover, this section categorizes existing literature and how they have conceptualized hegemony as a form of power.

The term hegemon is derived from the Greek *egemon* and *egemonia* and refers to "the partner who, by virtue of his special prerequisites, occupies a leading role in a community or in an alliance and who, by virtue of this leading role, can claim a relatively larger share of the spoils of war" (Fontana 2008, 81; Ougaard 2004, 171 cited by Goepel 2007, 235). Leadership in the context of Greek city-states refers to the ability of a powerful city-state to assert its authority through a variety of means over other city-states and wider civilization (Worth 2015, 2). For example, whereas Sparta asserted its authority to other city-states because of its contributions during the Persian Wars, Athens earned the position of leadership because of its intellectual and artistic accomplishments (Lebow and Kelly 2001, 594). The meaning of hegemony is more leaning towards the leadership than pure domination in this early conceptualization as Thucydides clearly defined hegemony as legitimated leadership which is bestowed informally and retained only through consent (Lebow and Kelly 2001, 594-95). Later, the meaning of the term has often confused with the empire. However, while hegemony implies that there is the autonomy of the led because it is based on the consent, the empire involves the autonomy of the leader (Haugaard 2009, 242). In the post-Westphalian nation-state system, the concept transformed and tended to combine "both principles of consent and domination" (Worth 2005, 3).

Critically, in contemporary IR, while in some studies domination specifically refers to the use of coercive power, in other studies it consists of both the use of coercive and consensual aspects of power. This complexity in the literature is evident in the studies that aim to explain the decline of British and American power. Therefore, it is important to identify different variations of hegemony and forms of power for this thesis since "the concepts of power and hegemony are inextricably and mutually constitutive" (Haugaard 2006, 46). Upon this premise, the following section discussed the various ways in which hegemony has been used as a form of power.

2.1.1 Dimensions of Power

This section discusses how hegemony is operationalized in the literature as a form of power by using the analytical framework defined by Steven Lukes (1974). Lukes's interacting and intersecting typologies of power provide a much-needed analytical tool to understand how different IR approaches positioned by their definition of hegemony. Moreover, interpretation of this threefold typology of the literature allows this research to demonstrate the main shortcomings of the literature and offers a fresh discussion of the domination/leadership dichotomy. These typologies are limited to the focus of this research as it explores the realist political economy, world-system theory and Gramscian understanding of hegemony, which predominantly focus on explaining the social change in Britain and the US by utilizing the concept of hegemony.

2.1.1.1 First Dimension of Power

The first dimension of power concerns with the traditional understanding of power as famously defined by Robert Dahl (1957, cited in Lukes 2005, 16): "A has power over B to the extent that he can get B to do something that B would not otherwise do". This aspect of power focuses on the exercise of coercive power over others. Weber (1964, cited in Haugaard 2006, 64) defines this type of power as "the probability that a command with given specific content will be obeyed by a given group of persons". Lukes (2005, 111-2) argues that this obedience "accords legitimacy to those who dominate them" as "the dominated may willingly comply and from which they and others benefit overall". However, Shapiro (2003, 53) opposes this argument and claims that this type of domination arises only from the 'illegitimate' exercise of power. Even this brief introduction shows how power is an essentially contested term even in a single dimension. This contestation is also evident within the realist approaches in IR.

Hegemony in realist studies undisputedly refers to the domination of a state over other states which is asserted as Dahl's famous formulation. For example, Gilpin (1981, 29) defines a state as hegemonic when that "single powerful state controls or dominates the lesser states in the system". For Mearsheimer (2001, 40), "a hegemon is a state that is so powerful that it dominates all the states". The power of a hegemon in those studies rests mainly on the material capability (economic and military) and the ability to transform this material capability into the use of power over other states coercively. Quite interestingly other examples promote the leadership role of hegemonic power. However, one should note that leadership in the realist framework refers to 'domination through leadership', not 'intellectual and moral leadership' framed in the neo-Gramscian framework.

The most influential realist framework that conceptualizes hegemony as 'domination through leadership' is Hegemonic Stability Theory (HST) which was pioneered by Charles Kindleberger (1973). Briefly, what Kindleberger aims was to link the international distribution of power and management of the world economy together to explain the peaceful and prosper periods of Pax Britannica and Pax Americana. Briefly, the theory holds that a well-functioning world economy requires a political structure, which is fulfilled by the dominance of a single state in the international system. This hegemonic power is responsible for an open and stable world economy, which would benefit the lesser states that do not have the power to burden of the stagnant world economy. According to Kindleberger, both Britain and the US during the 19th and the second half of the 20th century provided such a role in the international economy. Following Kindleberger's footsteps, Gilpin aims to create a generalizable theory of hegemonic transition and later Kennedy formulates the stabilizer role of a hegemon as one of the main reasons for its decline.

The critical point here is that this theory assumes a leadership role for the hegemonic power. As Snidal (1985, 612) puts it, "… the hegemonic stability theory … points out how dominance may be reflected in 'leadership' rather than exploitation". To support this Kindleberger (1986, 8) later argues "… it is possible to lead without arm-twisting, to act responsibly without pushing and shoving other countries".

Interestingly Kindleberger suggests that the US should have pursued a leadership role because of its declining economic prowess after the 1960s. He argues that the US was not in a position to dictate and tell them but to ask them about what needed to be done (Kindleberger 1981, 243). However, this understanding of leadership is quite ambiguous and hard to distinguish leadership from domination. A valuable effort comes from Duncan Snidal (1985) to clarify this confusion as he argues that there is *coercive leadership* and *benevolent leadership* in the HST. However, the basic premise remains for both conceptualizations as in both cases a powerful state is responsible for the provision of public goods in the international system. The difference is how they decide to distribute these collective goods: while in the coercive leadership model the most powerful state forces subordinate states to make contributions to run the international economic order, the benevolent leadership model entails that the most powerful state has a greater interest in providing the public goods (Snidal 1985, 589). In both ways, the power of the hegemon rests on its ability to force others to do as hegemon wishes by the virtue of its economic and military power.

Finally, in Realist approaches, there is a strong tendency to explain the relation between dominated and dominator structurally. For example, Kindleberger (1981, 249) criticizes other approaches that analyse the agency of class formation by saying: "I do not believe in … the power elite, the establishment, oil companies, professoriate, military-industry complex, and so on". Jonathan Joseph (2003) further developed this criticism and criticizes the Gramscian understanding of hegemony as 'purely agential' and tries to find a middle ground between structure and agency dichotomy. However, as Jessop rightly argues, this endeavour is flawed in terms of defining hegemony as a causal mechanism that relies heavily on the state structure by scrutinizing the relationship between political parties and masses (2003, 183). While this understanding could explain how the state is structured around certain hegemonic ideas, it misses how those ideas are internalized within civil society.

In conclusion, the realist conceptualization of hegemony embodies Steven Lukes' first dimension of power. In this conceptualization power of the hegemony rests on the coercive exercise of power over others, while the source of the power of the hegemon rests on the material power. Based on this materially deterministic understanding, hegemony is measured by relative terms. However, the duality of domination and leadership is not solved in this perspective and the question of when or how hegemony exerts direct dominance or leadership remains unanswered. Finally, the strong emphasis the realist studies put on the role of the state ignores the role of different class fractions in the domestic and international economic structure and their wider relationship with the state and civil society. This is a major shortcoming since this understanding has led these studies to assume the same pattern of financialization for both British and the US cases.

2.1.1.2 Second Dimension of Power

The second dimension of power can be expressed as the structural view of power (Cerny 2006). Developed by Bachrach and Baratz (1962), this type of power does not require the direct exercise of power over others, rather it concerns how 'rules of the game' are embedded in institutional structures that create asymmetric power hierarchies and how these institutional practices selecting in certain issues and selecting others out, and simultaneously reinforce the political distribution of power (Lukes 2005, 20). The second dimension of power is defined as "the property of social systems" in which "certain social structures define relative relations of empowerment and disempowerment through the 'rules of the game'" (Haugaard 2006, 11-3). In other words, the second dimension of power functions within "a set of predominant values, beliefs, rituals, and institutional procedures that operates systematically and consistently to the benefit of certain persons and groups at the expense of others" (Bachrach and Baratz 1970, 43; cited in Lukes 2005, 21). This systematic view of power can be associated with the structuralist approach of Marxism (Haugaard 2006, 11), and particularly with the world-systems theory.

Power has different connotations in the works of Marx and Engels. In general, one could categorize different use of power in Marxism as economic, political, and social (Nigam 1996,9; Jessop 2012, 3). However, it is important to note that they are interrelated and used interchangeably in classical Marxist texts. Unsurprisingly, economic power refers to control over the means of production, the relation of accumulation and organization of labour. Political power, on the other hand, is defined as "… the organized power of one class for opposing another" (Marx and Engels 1976, 505). This organization of power is often related to the state and its "direct and indirect roles in securing the conditions for economic class domination" (Jessop 2012, 6). Finally, social power is associated with the ideological power which allows the control over means of the intellectual production of the ruling class, as Marx and Engels (1846, 6) argue "the ruling ideas of any age are the ideas of the ruling class". World-systems theory and neo-Gramscian conceptualization of hegemony are clear examples of the Marxist understanding of power. While the former puts a strong emphasis on economic domination and exploitation, the latter focuses on the intellectual and moral leadership within civil society and the state.

World-systems theory, pioneered by Immanuel Wallerstein, conceptualizes hegemony in a quite similar way as realist theory does. Hegemony in the world-systems theory is a political system like the balance of power or great power rivalry, in which the hegemon state dominates the world economy. However, unlike the first dimension of power, world-systems theory promotes an approach that offers a systematic account of hegemony. according to Wallerstein, the power of hegemony lies in the ability of a single core power in the interstate system to achieve an advantage of efficiency in "agro-industrial production, commerce, and finance" (1984a, 5-39). Starting from this idea, he defines capitalist development as a singular historical process in which true hegemony arises only after achieving and sustaining a productive advantage in the world economy. Thanks to this advantage a great power becomes "primus inter pares" in the power struggle with other states and imposes its will in nearly every aspect including economic, military and diplomatic arenas (1984a, 38). In the world systems theory, the hegemonic state "continuously demonstrates its 'leadership' by shaping systemic structures, and having its systemic policies almost always accepted not merely by weaker states but by strong ones as well" (Hopkins et. al. 1996, 3). Critically leadership here does not refer to the enlightened leadership as framed in the liberal framework, but it refers to the relation between core and periphery as domination and exploitation. Finally, for Wallerstein, enlightened hegemonic leadership as framed in the liberal framework is not a possibility as the relation between the core and periphery is based on domination and exploitation.

While Wallerstein conceptualizes the relationship between the hegemon and the rest as domination, another influential figure of the world-systems theory offers a conceptualization that characterizes the same relationship as leadership. Giovanni Arrighi (2010, 29) argues that hegemony is more than pure domination and it is associated with "intellectual and moral leadership". This understanding of leadership is also evident in Gramscian conceptualization of hegemony however there is quite an interesting difference that Arrighi underlines. For Arrighi, leadership only takes place in high finance, which is defined as the highest and latest stage of capitalist development (2010, xiv). However, unlike the HST which argues that leadership of hegemonic power is required to sustain international economic order that hegemon established, Arrighi explains leadership of certain class fractions in the world without empirically demonstrating how this leadership works in the interstate system. Moreover, unlike Wallerstein, it is the control over means of payments and setting the rules of the world economy makes a state hegemony (Arrighi 1994, 2007).

World-systems theory provides us a clear-cut example of a structural view of power in hegemony studies. Here, power is rooted deeply in the capitalist world-system and hegemonic power can only acquire this power by having productive efficiency over other powers, control over the means of payment and setting the rules of the economic realm. Even though Arrighi defines hegemony more than sheer dominance, world-systems theory overall fails to demonstrate the ideological leadership of hegemony in their studies. Dominance in this perspective is quite similar to the traditional Marxist view, whereby the dominant social group exploits subordinate ones to accumulate more capital. In the world-systems approaches, states range from the periphery to the core according to their concentration of power in the capitalist world-economy. Unlike realist definitions of hegemony, in the world-systems, the hegemonic state is not solely judged on its material preponderance and ability to provide public goods to stabilize the world economy, but rather on its ability to concentrate based on its material wealth and shape the rules and norms of capitalist world order with that power.

However, this systematic understanding of power "reduces politics to economic conditions and the expression of the will of dominant groups within each national arena" (Skocpol 1977, 1089). Moreover, it undermines the agency of the dominated class, their resistance and how class struggle shapes the structure in the first place. Conversely, "domination is not an absolute zero-sum phenomenon but entails mutual autonomy and dependence" (Lukes 2005, 246). Resistance to the existing structure neglected in world-systems theory as "class struggle and the polarization of the world economy in the core and peripheral locales have almost completely dropped out of the picture" (Arrighi 2010, xiv). Hence, in the world-systems theory the decline of British and American hegemony analysed in a systematic, non-agential, and economically deterministic way. Therefore, this dimension of power fails to grasp the true nature of the British and American financialization and the relationship between financialization and the decline of hegemonic powers.

2.1.1.3 Third Dimension of Power

The third dimension of power involves an in-depth critique of the first two dimensions of power as those two dimensions fail to grasp the encompassing role of the system of ideas in power debates. While the first two dimensions of power focus on the simple preponderance of power view of hegemony (Haugaard 2015, 152), the third dimension of power is concerned with the reproduction of relations of power. Haugaard (2012, 45) claims that the third dimension of power provides a "…direct mapping between the tacit social knowledge that actors use to reproduce the social structure and the reproduction of relations of domination". This view of power provides the hegemon with the power "to prevent people … from having grievances by shaping their perceptions, cognitions, and preferences in such a way that they accept their role in the existing order of things" (Lukes 2005, 11). What Lukes has in mind when defining the third dimension of power is "more akin to Gramsci's concept of hegemony" (Haugaard 2012, 152).

Lukes's third dimension of power can be used to understand the Gramscian conceptualization of hegemony. This dimension of power concerns not only the exercise of power within meanings, habits, and behaviours but also how the rules of the powerful have been systematically embedded into the social structures to reproduce disempowerment of the powerless and how the dominated have internalized this domination.

> It is not simply about structuring the playing field or the rules of the game, which is still the property of the hegemon as power-exerciser, however, indirectly, it may be refracted through the system (Cerny 2006, 81).

Another important difference of the third dimension of power is, it concerns with how social relations of power typically involve both A and B doing what they do, instead of focusing solely on A getting B to do something B would not otherwise do (Isaac 1987, 96). In this perspective power is not an abstract idea that could be discussed independently from the actual reality, rather it involves the specific social relations of production in which it exists and is exercised (Nigam 1996, 8). Jessop (2012, 4) explains how this power relation in society:

> [W]orkers transfer [their] power to the capitalist … [by] voluntarily selling their labour power. A formally free exchange thereby becomes the basis of workplace despotism and economic exploitation. Conversely, working-class resistance in labour-markets and the labour process indicate that the successful exercise of power is a conjunctural phenomenon rather than being guaranteed by unequal social relations of production.

The agential aspect of the third dimension of power is evident in this quotation. It is the realization of capacities in specific circumstances by specific actors. This agential approach allows us to reconsider financialization as not only a matter subject to the rules of economics but also a matter of power struggle between different class fractions.

The concept of hegemony as commonly used in the literature of political science and IR was first developed by Antonio Gramsci to explain the social relations that had transformed the political sphere in Italy. The concept of hegemony is used to analyse "the relations of forces in a given society" (Gill and Law 1993, 93). There are three different interpretations of the Gramscian understanding of hegemony. First, Gramsci's ideas on hegemony have been interpreted, as something akin to Lenin's 'dictatorship of the proletariat' (Augelli and Murphy 1988, 117). Here Gramsci stresses "how the proletariat should aim to exercise hegemony, implying leadership with the consent of allied classes such as the peasantry" (Morton 2007, 87). The second interpretation focuses more on the role of civil society and the role of intellectual leadership which puts the economic structure in second place (Hall 1987). Finally, in the third conceptualization, hegemony is framed only as an instrument to sustain the ideological foundations of bourgeois domination. All in all, these interpretations only capture one dimension of Gramsci's conceptualization of hegemony.

For Gramsci power has two faces, which he derived from Machiavelli's conceptualization of power, "… half-man, half-beast" (Cox 1993, 52). Gramsci (1999, 50) describes the supremacy of a social group over others in two ways, 'domination' or 'intellectual and moral leadership'. This dichotomy has been evident in his analysis in which "force and consent, authority and hegemony, violence and civilization" oppose each other (Gramsci 1999, 385-7).

> On the one hand, hegemony is contrasted with power based domination, and on the other hand hegemonic is used to designate an historical phase in which a given group moves beyond a position of defending its economic position and aspires a position of leadership in the political and social arena (Gramsci 1999, 20).

While domination refers to subjugation by force, intellectual and moral leadership refers to leading allied groups (Augelli and Murphy 1993, 98). Supporting this idea, Hopf (2013, 320) defines hegemony as "subscription to a shared and legitimized ideology". In line with this definition Goepel (2007, 236) defines hegemony as leadership in the Gramscian sense as the

> …capability of consensual dominance, the capability to organize cooperation and everyday living practices of a social collective through terms, institutions and obligations that appear necessary or justified.

The third dimension of power, which is epitomized within the Gramscian conceptualization of hegemony, has a different outlook on the relations of power than classical Marxism. In classical Marxism "[the] economic base unilaterally determining juridical-political superstructure and prevailing forms of social consciousness" (Jessop 2012, 9). For Gramsci, the relation between base and superstructure is reciprocal and domination is not synonymous with economic exploitation within the base; rather it is "something concealed in the superstructure – the cultural, intellectual and moral realm" (Birchield 1999, 42). The superstructure in this conceptualization refers to the civil society and state which correspond to: on the one hand the function of hegemony in which the dominant group exercises consensus throughout the society, and on the other hand domination through the state and juridical government (Gramsci 1999, 145). However, the state uses not just brute force; but it is also the place where a social group acquires power over society through constructing "a socio-political order capable of instilling its particular cultural and moral beliefs" to gain active consent of the society to a "particular moral consciousness, a particular culture, and a particular conception of the world" (Fontana 1993, 126). As a result, the state transforms the repressive rule of a particular class into a moral one and "subsumes and molds other, more specific, social and political organizations into an organic social whole" (Augelli and Murphy 1993, 126). Reproduction of the unequal power relations is achieved only through the activities of intellectuals and the dynamics of ideology in this dimension of power.

The role of ideology is pivotal to understand the third dimension of power. Ideology for Gramsci is not a "simple reflection of relations at the economic level, and as the uniform expression of the ruling class" and "[i]t does not spring automatically from the ruling class but is usually the result of the relations of forces between fractions of the ruling bloc" (Hall et. al. 1977, 48). This combination reflects within the neo-Gramscian definition of hegemony: "unity of structure and superstructure in which power-based dominance over production is rationalized through an ideology incorporating compromise or consensus between dominant and subordinate groups" (Cox 1977, 387). However, this focus on the ideology does not mean that economy is missing in Gramscian analysis. On the contrary, Gramsci rejects any unilinear causal hierarchy between the economic and political (Hall et. al. 1977, 53). Hegemony involves not only intellectual and moral unity provided by the ideological hegemony but also the political and economic unity (Fusaro 2010, 9). The economy is always present in Gramscian analysis, "its movements set parameters for the developments in the superstructure" (Hall et. al. 1977, 46). This unity of political and economic offers a critical alternative to economistic explanations of hegemony, as Gramsci (1971, 133) argues

> …economic change is important in revolutions, but it is not the driving force. Rather, it occurs largely as an expression of changes in philosophy as expressed in social relations.

Briefly, Gramsci's conceptualization of hegemony is a great example of the third dimension of power. As discussed earlier in detail, the third dimension of power focuses on how the system of ideas is embedded in the social structures and ensures the reproduction of the relations of power. In other words, it focuses on "not only where there is domination, but where the dominated acquiesce in their domination" (Dowding 2006, 137). However, a critical point here is the fact that in the third-dimension consensual aspects of power forefronts coercive exercise of power, while coercive power is always there. This is important since "there is no social system where consensus serves as the sole basis of hegemony nor a state where the same social group can durably maintain its domination on the basis of pure coercion" (Portelli 1973, 30). There should be a unity between coercion and consent just like base and superstructure, as Gramsci (1971, 263) famously argues, "hegemony protected by the armour of coercion". Hegemony in the third dimension of power is characterized "by the combination of force and consent, which balance each other reciprocally, without force predominating too greatly over consent" (Gramsci 1971, 80).

While the first two dimensions of power provide only an economistic understanding in their framework to explain British and American financialization and its relationship with the decline of hegemonic powers, the third dimension of power allows unravelling a broader picture of this issue. It is the Gramscian conceptualization of hegemony that allows us to understand the material basis of the power but also how this material basis is rationalized through a hegemonic ideology. Moreover, the Gramscian framework helps us to understand how the active consent of the exploited can be reproduced by the system of ideas that have been embedded in the economic structure and everyday life to sustain the dominance of the ruling class. The operationalization of consent in the Gramscian framework does not refer to leadership in an alliance, rather it is a form of dominance that entails exploitation. Yet, this domination is different from brute dominance that uses force, rather it is established by the moral and intellectual leadership of the hegemony. Therefore, Gramscian conceptualization of hegemony provides not only a singular aspect of power but combines the domination and leadership in the analysis.

2.2 Financialization and decline of hegemonic Powers

2.2.1 What is Financialization?

Financialization is a popular concept in the field of political science, sociology, and economics that has often been deployed in analysing the structural economic changes that resulted in a shift from industrial capitalism to financial capitalism. The term is loosely defined as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005, 3). In a narrow explanation, the term refers to a "pattern of accumulation in which profit-making occurs increasing through financial channels rather than through trade and commodity production" (Krippner 2005, 173). Since the concept has been used by different disciplines, it has different connotations in each discipline. While in some studies financialization has been studied in terms of its economist and technical implications to explore the causal relationship between the market and corporations, in other studies it refers to historical, political, institutional, and social forces in mediation between finance and production (Lapavitsas 2003). The term and how it is operationalized in the literature is pivotal to understand the literature on the decline of hegemonic power, as many of these 'declinist' studies in the literature framed financialization as a causal mechanism for the decline of hegemonic power.

There are four different conceptualizations of financialization in the literature according to Lapavitsas (2011): Marxist, post-Keynesian, world-systems, and the Regulation school. In Regulation school, finance-led economic growth is understood as a response to declining productivity and the downfall of the Fordist regulation regime (Lapavitsas 2011, 616). As a response, the Regulation school offers regulation of capital accumulation through institutions including the financial accumulation by deferring or displacing different contradictions of capitalist accumulation and reproducing the capitalist mode of production (Heino 2015, 456). Financialization within the Marxist political economy refers to a systematic transformation of mature capitalist economies when production stagnated by the increasing number of monopolistic multinationals and capital began to seek refuge in the speculative activities of finance (Sweezy 1997; Brenner 2002). Moreover, in this perspective economic crisis after financialization is inevitable because of the potency of financial escape decline at some point (Lapavitsas 2011, 613). The post-Keynesian perspective of financialization has focused on the negative impact of the financialization on the production processes and has scrutinized specifically the concept of rentier (Epstein 2005; Orhangazi 2008). Finally, the world-systems theory places financialization at the centre of its cyclical analysis (Wallerstein 1984a; Arrighi 1994). Within this perspective, there is a successive rise and decline pattern of hegemonic states in which financialization causes the decline of hegemonic powers. However, this deterministic understanding of hegemonic transition reduces the state to a predetermined singular entity and ignores the role of class contestation. Moreover, financialization in this perspective reduced to an ahistorical abstraction and "finance becomes the driving force behind its own expansion" (van der Zwan 2014, 106). The next sections further discuss the literature on the decline of hegemonic powers and the special role played by the financialization in this literature.

2.2.2 Decline, a measurement issue?

The 2008 global financial crisis has ignited scholarly debates on the decline of American power and several scholars regarded this development as the terminal phase of the structural developments that have started since the 1970s (Wallerstein 2002, Arrighi 1994, 2007; Zakaria 2008a, 2008b; Harvey 2010; Ferguson 2011). This was the fifth wave of the declinist rhetoric in sixty years by Joseph Joffe's (2014) calculation. The pessimism on American power has been always fuelled by a ruthless economic recession or a political setback. During those periods, people considered possible contenders against American power. First, it was the Soviet Union later it was followed by Japan and Germany, then the EU seemed like the candidate that could top American power, and recently China became the strongest candidate as the challenger to American power. Yet, those predictions have not met the expectations so far. First and foremost, the focus has always been on power. As discussed above, most of those studies that focus on the American decline infer that the decline of the United States' productive edge has led to the decline of American power. However, the claim that the United States has declined due to the erosion of its economic base overlooks the role of ideology, culture, commercial and financial power of the US. Therefore, there is a need to discuss how the literature measures this decline.

As discussed earlier, there are two different measurements of the decline of hegemonic powers in the literature: absolute and relative decline. Joseph Nye Jr. (1988, 106) defines absolute decline as "society's loss of cohesion and inventiveness in generally". The relative decline, on the other hand, is measured by the relative economic and military decline of hegemonic power and generally explained by external challenges to the existing hegemonic power. This type of measurement generally involves the stuff that one can count as Waltz (1979) argues. As discussed earlier in realist understanding, hegemony is exercised through economic and military power. However, this perspective excludes the role of ideas in the measurement of rise and decline. The liberal paradigm, on the other hand, adds commitment to liberal principles to the economic and military power when explaining how a hegemonic power exercises its power. Because, “only liberal states have the will to pursue hegemony, [while] authoritarian states prefer imperialism” (Hobson 2000, 39-40). In this perspective, it is the liberal principles and the commitment of the hegemonic power to these principles that create consent among lesser states. Ikenberry and Kupchan (1990, 283) argue that this compliance is achieved by the role of leaders and elites of lesser states who internalize the norms of the hegemon and pursue policies consistent with the hegemonic world order. However, this argument reduces the relation between the oppressor and the oppressed to the agency of a small elite. On the other hand, the ramifications of the compliance to the hegemonic norms affect society at large. Hence, the liberal conceptualization silences the agency of the masses on the exercise of hegemonic power.

Ensuring consensus among the subordinate groups in Cox’s conceptualization has a crucial role to decide whether a world is hegemonic or non-hegemonic. He argues that “the consensual element distinguishes hegemonic from non-hegemonic word orders” (Cox 1996, 557). This consensual dominance appears as “a language of common interest expressed in universalist terms, though the structure of power underlying is skewed in favour of the dominant groups” (Cox 1977, 387). This perspective is in line with a Gramscian sense of hegemony in which hegemonic power needs to be based on a combination of force and consent (Engel 2006, 2). Moreover, this consensual dominance should be expressed in the form of social relations of production which represents the material basis of the hegemonic power. Later this material structure transforms itself into an ideational form and is reflected itself in the institutional structure that hegemonic power controls. Therefore, there is a need to measure the power of a hegemon within these three spheres of activity: material, ideational, and institutional. Moreover, the distinction between hegemonic and non-hegemonic in neo-Gramscian analysis entails the measurement of absolute power, rather than a relative comparison of different states. The next section of this part demonstrates how different perspectives measure the decline of hegemonic powers.

2.2.3 Decline and Financialization from a historical perspective

Structural economic changes after the end of the Bretton Woods System in 1971 have introduced a new agenda to academia. Especially, the economic instability of the 1973 Oil Crisis intensified the links between the economic decline and the erosion of the US power. As discussed earlier, there has been a strong tendency in the literature to compare British and American financialization periods and expect a decline in American power based on the British decline. This thesis, on the other hand, argues that American and British financialization is qualitatively and conceptually different and aims to show this argument by comparing the same period declinist studies compare. First, this section discusses 'declinist' studies in the literature from a historical perspective. Secondly, this section deliberates alternative literature which argues that American power has not been in decline as framed in the declinist literature. Finally, this section reviews neo-Gramscian literature and its strengths and shortcomings.

2.2.3.1 Realist Decline Thesis

Realist decline thesis is based on the premise that all great powers have a determined lifespan within an international system governed by certain laws. Briefly, in realist decline theses "great powers were great initially by virtue of their economic prowess" (Cox 2001, 323). The decline in the realist studies any decline in the economic base of the great power, which always happens within the production sphere, results in an increasing interstate competition and eventually that great power would fall after a military struggle. In this conceptualization, the economy has almost no autonomous role as it is only the means to sustain a powerful military by which realist decline measures hegemonic power. The main strength of this decline theses is the historical analogies derived from British and American cases. Analogies appeal to scholars because they provide shortcuts, cognitively and analytically and yet these shortcuts might lead to the selectivity of historical examples and the circumvention of context (Mumford 2015, 6). Realist decline thesis is quite central in IR and it is crucial to scrutinize arguments of realist decline theses to underline its shortcomings. This part of the thesis the most popular realist conceptualizations of decline from Robert Gilpin and Paul Kennedy, like the rest of the realist school of thought derived from earlier studies of the phenomenal works of these two scholars.

2.2.3.1.1 Robert Gilpin: War and Change

One of the most influential works on the rise and decline of great powers is the one written by Robert Gilpin in the IR literature. In his search for a fresh understanding of the realist political economy and how power is generated by the states in the modern era, Gilpin comes up with a theory of hegemony which is based on a cycle in which successive hegemonic states dominate states through their economic prowess and military capabilities. In this theorization succession of hegemonic power occurs only after a hegemonic war that marks the shift from one great power to another. Gilpin (1981, 7) takes international relations as a "struggle for wealth and power among independent actors in a state of anarchy". However, Gilpin's work is different than classical realist accounts of power, as he borrows some Marxist notions in his analysis; most importantly Samir Amin's (1976, 18) concept of 'social formation' that refers to how the economic surplus is generated and distributed among the society. While Amin discusses this concept in the context of society and puts the dominant group to a position to distribute the wealth, Gilpin uses this concept to explain the wealth distribution in the international system in which the hegemonic state functions as the dominant social formation in society. Even though there is no formal governmental authority and certain anarchy in the international system in realist studies, he claims, “the relationships among states have a high degree of order” (Gilpin, 1981, 28).

It is the hegemonic international system that defines the degree of the order between the states. In a hegemonic international system, “a single powerful state controls or dominates the lesser states in the system” (Gilpin 1981, 29). The distinction between imperialistic and hegemonic states is their position in the world economy. While imperial states tend to have military power, yet they are economically underdeveloped compared to hegemonic states (Gilpin 1981, 129). For Gilpin, there is an equilibrium in the international system in which challenging and lesser states defer to hegemonic power if they believe it is not profitable to change the system (1981, 10). However, when a challenger state believes that the cost of changing the system is less than expected benefits, it attempts to change the system. While in the pre-modern time's states pursued territorial expansion as a means of increasing wealth and power generation, in modern time’s the market economy and productive efficiency replaced territorial expansion. Especially, productive efficiency is a pivotal concept for Gilpin as he argues “hegemony without [productive] efficiency tends to move toward imperial-type economies as is the case in the Soviet bloc” (Gilpin 1981, 129). However, productive efficiency is not enough to achieve a hegemonic position in the international system for Gilpin, as he argues “the economically efficient but militarily weak Japan continually fears exclusion from foreign markets by tariff barriers” (1981, 129).

For Gilpin, a great power should have won a hegemonic war, provide a beneficial international economic order and security, and finally have an ideology or common set of rules to support its position in the international system (Gilpin 1981, 34). He argues that only Britain and the United States succeeded in attaining a hegemonic position in the international system. These two states acquired such a position of power because “partially they have imposed their will on lesser states and partially other states have benefited from and accepted their leadership” (Gilpin 1981, 144). Gilpin (1981, 145) argues that other states accepted the leadership of

Britain and the US because as hegemonic powers these two states provided relative peace and security to the international system. Both Britain and the US emerged as victorious from hegemonic wars, transformed the international economic system which was perceived as beneficial to other states and had an ideology that was adopted by many other states.

Gilpin's conceptualization of decline is also affected by the role of productivity. Understanding decline, especially British decline, in this perspective is crucial since Gilpin's historical comparison of British and American experience has led him to expect the decline of American hegemony. Gilpin identifies the main reason for the British decline as the financialization of its economy during the 1870s. He suggests that the portfolio investment of British capital at the end of the nineteenth century was the main reason behind British financialization and decline. Investing overseas more than investing in the home country resulted in a decreasing productive efficiency and an ever-increasing trade deficit for Britain and the British economy had transformed into "a rentier economy [that] was living off the income from its vast overseas investments" (Gilpin 1987, 308). Secondly, the inability of the British political structure to adjust these changes intensified the overall decline of British hegemony. Gilpin (1987, 115) argues that Britain was "caught in a set of ideological traps". The British state "followed the path of self-restraint and frequently even took actions contrary to their own economic interests" (Gilpin 1987, 89).

Gilpin argues that even though economic primacy of British hegemony started to wane at the end of the century, London was capable enough to stand up to the rising forces of economic protectionism by maintaining the international economic order because of their interest in the stability of the international financial system (Gilpin 1987, 127-309). Clearly, for Gilpin, it was British capital that weakened the British economy and blocked all the strategies that were possibly arresting economic decline by the British state. However, since class analysis is missing in Gilpin's analysis, it is unclear how British capital interfered with the British state's policymaking and the role of the British state in the making of financialization. Moreover, while Gilpin fails to demonstrate why the British capital required a stable international economic order, he argues that this role that British capital undertakes slowed down the decline process. For Gilpin, British hegemony sustained its role as the stabilizer of world financial and monetary issues until the establishment of the Bretton Woods regime which is the most important characteristic of a liberal hegemon. As the hegemonic transition occurs only after a hegemonic war in Gilpin's conceptualization, the US hegemony took over only after the Second World War when the British hegemony failed to sustain an open and functioning liberal economic order.

Gilpin argues that the US emerged as the hegemonic power in the international system after the Second World War, which also coincides with the emergence of the US as the most efficient productive force in the world. The US dollar replaced the British sterling after the war as the "basis of the international monetary system" (Gilpin 1987, 343-4). Moreover, American efforts to revive the liberal world order by the rapid economic development plans such as the Marshall Plan proved to be successful. From an HST perspective, American hegemony provided a secure and stable economic development in the world economy, and for the first time, all the capitalist economies became political allies (Gilpin 1987, 343). In short, American hegemony between 1945-1970 provided "the favourable environment within which supply and demand forces created an era of unprecedented growth and an increasingly open international economy" (Gilpin 1987, 344). Critically, Gilpin recognizes the abnormal nature of the American productive edge, which was a result of the devastated industrial base of other capitalist countries because of the war. Because of this abnormal nature of the American productive edge, Gilpin (1987, 343) expects a decline in the US leadership with the recovery of other economies. For Gilpin, excessive usage of Keynesian policies and the decline in the productive sphere of the American economy began the demise of American hegemony.

Gilpin demonstrates the decline of American hegemony in twofold. The first one is drawn from the historical example of Britain. For Gilpin, the US lost its productive edge to the competitors by the early 1970s. Gilpin (1975) explains this decline by drawing parallels between the portfolio investments of British capital and the foreign direct investments of the American capital. He argues that British and

American capital trade-off existing domestic productive efficiency for the sake of gains for future foreign earnings by exporting technology, technical know-how, and management (Gilpin 1975, 198). Moreover, for Gilpin, this policy weakened the national economy of the state because of the unilateral adaptation of free trade policies while potential challengers promote protectionism to catch up with the dominant state.

Secondly, Gilpin compares British and American cases by their policy choices after their respective financialization periods. As discussed earlier, Britain failed to take any responsive action and was arrested by its ideological stance, which prevented the promotion of economic nationalistic policies. However, in the monetary issues, Britain remained strong since it protected the gold standard regime and remained the leader of international finance. Gilpin claims that this policy helped British hegemony had declined slowly since one of the most important aspects of hegemony is its leadership role in the international monetary issues. In the American case, Gilpin (1987, 142) claims that as the result of the structural changes during the 1970s in the realm of international monetary relations, "the United States had forfeited its role of monetary leadership". Furthermore, he claims that by adopting inflationary policies and flooding the world with excess liquidity by printing more and more US dollars, the US transformed from problem solver that stabilize world of economy, into troublemaker (Gilpin 1981, 1987). Importantly, Gilpin argues that the US exploited the global financial system and "has been able to cover the costs of its hegemonic position, preserve false domestic prosperity, and mask the consequences of its relative political and economic decline" (1987, 351). These self-centreed policy changes shifted the perception of American leadership from benign leadership to malign neglect in the eyes of its allies.

Finally, Gilpin believes that the possibilities of the reestablishment of a new political foundation or a possible took over of another hegemon is not very high. He claims that historically all hegemonic transition occurred after hegemonic wars but "in the nuclear age this 'solution' to the problem of declining economic leadership, fortunately, appears out of the question" (Gilpin 1987, 351). Gilpin (1981, 187) argues that while the American leadership in the realm of the economy has waned, its commitments have risen which for Gilpin represents the "classic position of a declining hegemon". This position was later conceptualized by Paul Kennedy as "imperial overstretch" and further developed to explain the rise and decline of great powers following a similar route as Gilpin. The next part of this section explores how Kennedy framed the so-called American decline by drawing causal inferences from the British decline.

2.2.3.1.2 Kennedy and Imperial Overstretch

Even though Robert Gilpin advanced a realist theory of the rise and decline of great powers and investigated the links between international political economy, military power, and international change, it was Paul Kennedy who attracted a great deal of attention with a quite similar thesis. Like many other of his contemporaries, Kennedy urged the US public to draw lessons from the past: the experience of the British decline. After a serious examination of five hundred years, Kennedy argues that all great powers followed a similar trajectory of rise and fall. Briefly, Kennedy claims that states become a great power because of their economic preponderance and transformation of this economic edge to territorial expansion. The role of economic power is also pivotal in Kennedy's framing of decline as no great power in history managed to deal with the burden of an ever-increasing cost of controlling and running a large empire. Critically, Kennedy draws links between the decline of the British Empire and the structural changes of American power during the 1970s. He argues that the overextension of the British Empire and the inability of the Empire to carry the burden of the British commitments in its overseas colonies was the most important reason for the British decline. And, he continues, the US after the 1970s should have faced the same fate.

For Kennedy, the British Empire had achieved a position of global power by the successful combination of "naval mastery, financial credit, commercial expertise, and alliance diplomacy" (1988 151). He argues that three different, yet related, realms laid the foundations of British hegemony. These realms are the naval realm (military power), colonial empire (political power), and finally the realm of finance (economic power) (1988, 154-155). Kennedy argues that the rise of industrial and commercial progress cannot be separated, as it is the money that had fuelled the Industrial Revolution, and it is the Industrial Revolution that produced more and more money in forms of capital returns (1988, 155). Furthermore, due to the long peace and abundant capital in the United Kingdom with the developments of new and advanced financial institutions, foreign investments of the British people increased enormously (1988, 156). From this point forward, Kennedy identifies several important consequences of this export of capital on overseas empire for the British power. The first one of these consequences is the positive result of the financialization of the British capital; that is the increasing income of invisible earnings, such as "shipping, insurance, banker's fees, commodity dealing" (Kennedy 1988, 156). For Kennedy, this development enhanced Britain's power as it ensured that Britain didn't experience a balance of payment crisis and became richer (1988, 156). However, Kennedy argues that this situation had also laid the foundations of British decline in the long-term in two different ways.

Like many others, Kennedy dates 1870 as the starting point for the eroding of British supremacy (1988, 226). The rise of international finance had started the relative decline in two interacting ways. The first effect of the financialization is its role in spreading the techniques and methods of British development to other countries in a way that they developed their industrial base and revealed the great potential of their countries by defeating the obstacles that geography posed. The first consequence of this structural economic change, that laid the foundation of British decline, was the ways in which Britain had established and developed foreign agriculture and industrial base with repeated financial injections and developed infrastructure by building railways, harbours, and steamships (Kennedy 1987, 157). Because of these developments, Kennedy mentions that Britain enabled "overseas producers to rival its own production in future decades" (1988, 157). For Kennedy, an advanced industry refers to the advance in the military and naval weights of the countries that pose a challenge to British supremacy (1988, 226).

Kennedy identifies a second weakness as more serious and challenging than the relative rise of other states. It is the erosion of industrial and commercial pre-eminence, upon which Britain's naval, military and imperial strength rested, as the result of the massive rise in the capital investment overseas (Kennedy 1987, 228). The second reason that Kennedy highlights the potential decline is "the increasing dependence of the British economy upon international trade and, more important international finance" (1988, 157). Here, Kennedy argues that as the established great power, Britain, had more to lose resulting from instability, such as war, since international finance relies on a peaceful international system. This is the main reason for the British endeavour to preserve the European balance of power, since as Gilpin mentions British capital had a lot to lose from social change. Because of this policy choice, it took several decades after 1870 for Britain to be overtaken industrially by both the US and Germany. Even after Britain lost its competitive edge against challengers, Britain remained the number-one world power for several decades thanks to the combination of financial resources, productive capacity, imperial possessions, and naval strength (Kennedy 1987, 231).

Kennedy's arguments about American decline were shaped by the concept of 'imperial overstretch' which was developed in the light of previous historical cases. Briefly, the concept refers to the case in which the sum of a state's global obligations is far larger than the country's power to defend them (Kennedy 1987, 515). For Kennedy, the first important determinant of American decline is the relative economic decline. Kennedy observes three connected economic spheres and how they affected the relative decline of American power. These economic realms are manufacturing, agriculture, and finance. First, he measures the relative industrial decline of American manufacturers against world industrial production. Kennedy claims that the American industry has been in decline since 1945. Furthermore, it is not just the decline in older manufactures like textiles, iron, and steel, but also American shares of robotics, automobiles, machine tools, and computers are declining (Kennedy 1987, 525). According to Kennedy, the second sphere of economic decline has been experienced in the agriculture sector. It is "the uncompetitiveness of U.S. industrial products abroad and declining sales of agricultural exports [that] have together produced staggering deficits invisible trade" (Kennedy 1987, 526). As a result, he argues, American economy transformed from the world's largest creditor to the world's largest debtor during the 1970s and the dislocation of American capital to the emerging markets had fuelled the American decline (Kennedy 1988, 526).

Finally, Kennedy puts a great emphasis on the relationship between industrial decline and American decline. Here, Kennedy argues that industrial decline, especially the decline in key industries for military complex and blue-collar employment, would have serious implications for the American grand strategy (1988, 530). Unsurprisingly, Kennedy expects that the decline in the industry will necessarily generate a decline in the military power since it is the economic power, and in this case key industries that support the military-industrial complex, within which American military power rests. Furthermore, Kennedy claims that this is a common dilemma that other previous number-one countries faced during their relative economic decline. Historical precedents show us that when economic strength is shrinking, the leading country allocates more and more resources into the military sector by squeezing out productive investment, increasing domestic taxation (1988, 533). Finally, unlike Gilpin, Kennedy does not argue that the US could have reversed its relative economic decline. He points out that the examination of the past cases teaches us that all great powers without exception experience a similar decline trajectory if not an identical one. Even though he does not explicitly argue that the decline was terminal, he suggests that American hegemony was on the verge of its imperial overstretch that every other great power exhibited almost in the same way.

To conclude, there are two inseparable components in the Realist decline thesis: economic and military power. Great power can only be hegemonic only after acquiring a position of economic power and translate this economic power into military power. Industrial supremacy and productive efficiency lie at the heart of the realist conceptualization of rise and decline as it links economic power and military power together. The realist decline thesis argues that the historically power of hegemon is bound to diminish in time due to internal and external factors. Financialization in this respect appears to be the most important internal reason for the decline which transcends into and transforms into an external factor. Financialization in this perspective weakens the industrial base of the hegemonic power which in turn has a massive impact on both military spending and the military-industrial complex. Finally, because of financialization, there is a capital outflow to other states in the form of foreign investments which in turn strengthens the economy of potential challengers. Increasing the economic capabilities of the challenger states increase the possibility of a hegemonic struggle since, with their increasing productive edge, potential challengers could benefit more if they could establish their own economic world order.

2.2.3.2 Liberal Decline Thesis

While the Realist decline thesis centred on the convergence of economic and military power of the most powerful state and argues that all-powerful states experienced a similar decline trajectory, Liberal decline thesis, on the other hand, builds a normative framework that is centred upon the cooperation among the units of the system and hegemony within international regimes. Using Gilpin's framework in *War and Change* as a point of departure, the Liberal decline thesis tries to offer a non-materialistic account of social change and promotes the roles of ideas in the rise and decline of great powers. However, liberal accounts of social change do not have an explicit account of decline as they were mainly concerned with the international order established by hegemonic power, rather than the hegemonic power itself, and sought how the international order could be sustained even without the existence of hegemonic powers (Keohane 1984; Ikenberry 2008, 2014). This section discusses Liberal views on the issue of rise and decline from the magisterial works *After Victory* (2001) by John Ikenberry and *After Hegemony* (1984) by Robert Keohane. While the first framework allows us to understand the roles of international orders and the role of hegemonic powers in the establishment phase of the hegemonic international order, the second book lets us discuss the issue of decline in Liberal thinking in more general terms.

2.2.3.2.1. After Victory

Liberal institutionalist arguments about rise and decline have been shaped around a vigorous critique of Gilpin's neo-Realist account of rise and decline. Ikenberry (2001) argues since the Realist decline thesis disregards the importance of institutions, it could not answer how hegemonic powers vested the compliance of lesser states into the international order that they have established after their victory in a hegemonic war, as Gilpin argues. Moreover, Kupchan argues that understanding international change requires "not just shifts in material power but also the associated contest among competing norms of the order" (2014, 20). Therefore, the focus of the liberal decline thesis shifts from material preponderance to the "ideas and rules that inform the nature of a given order" (Kupchan 2014, 20). For Ikenberry, leading states that emerged victorious after hegemonic wars "strategically restraint" themselves with a set of rules and binding institutions to gain the consent of lesser states (2001, xi). Therefore, the focus of Ikenberry, unlike Keohane who focuses on the cooperation after the hegemonic decline, rests upon the functioning of the institutions at the establishment or rise phase of the hegemonic powers and how institutions help hegemonic powers to secure cooperation between unequal states (2001, 17).

According to Ikenberry, hegemonic orders are hierarchically structured and "the relations of power and authority" are organized according to the hierarchy (2001, 26). In the liberal understanding of hegemony, authority is quite central as it is argued that hegemonic powers could rule the international system without coercion (Lake 2014, 62). In the hegemonic orders, the hegemonic power gives up some freedom on the use of its power in exchange for agreed-upon principles and institutional processes which in return helps to preserve its power longer (Ikenberry 1999, 56). By binding itself to the rules of the system the hegemon lowers the maintenance cost of the order, which is quite central in Gilpin's account of decline as well, as ruling by coercive measures would not last long (Ikenberry 2001, 53). Moreover, Lake argues that binding itself is not enough as the very existence of hegemonic power within an international order rests on its ability to preserve the authority relations in the international order by producing the promised order, even when it is costly to do so (2014, 66). The liberal decline thesis does not have a clear framework for the decline of hegemonic powers prior to the US, and they have predominantly focused on the ways in which American hegemony could be sustained in the international order. The underlying reason for this argument is that even Gilpin himself admits the impossibility of a hegemonic transition through a hegemonic war in an age of nuclear deterrence (Wohlforth 2014, 130).

2.2.3.2.2. After Hegemony

One of the first and most influential liberal conceptual framework offered by Robert O. Keohane in *After Hegemony* (1984), which aims to offer an alternative order that could continue even after the power of the hegemonic state wanes and prevent hegemonic wars. Keohane argues that the power of the hegemon reflects itself in the realm of economy, more specifically in the "control over raw materials, control over sources of capital, control over markets, and competitive advantages in the production of highly valued goods" (Keohane 1984, 32). However, this material strength does not automatically create incentives for a hegemonic state to use its power over lesser states (Keohane 1984, 35). It is only possible for a state to exercise its power over others by maintaining the essential rules of governing interstate relations (Keohane and Nye 1977, 44). At this point, Keohane points out the importance of ideology and promotes a Gramscian understanding of hegemony as a consensual power. For Keohane, this consensual power reflects itself in hegemonic leadership which builds upon the interests of the hegemonic state as well as lesser states (1984, 137). Hence, he argues, "hegemons require cooperation to make and enforce rules" (1984, 39).

In this framework, hegemonic power is solely responsible for the establishment and functioning establishment and functioning of the international order with the help of international institutions which in turn binds the power of the hegemon and creates incentives for lesser states to accept hegemonic leadership (Keohane 1984, 138). Keohane argues that once this order is successfully established "cooperation does not necessarily require the existence of a hegemonic leader" since international institutions have a binding power for all states in this international order (1984, 31). Keohane concludes that the power of the United States was waning during the 1970s since the US was evidently using its control over the world economy, and therefore he claims that "hegemonic leadership is unlikely to be revived in this century for the United States or any other country" (1984, 9). However, this argument is closely related to the cyclical hegemonic transition understanding of neo-Realism since Keohane rests this argument on the fact that the cost of a world war in the age of nuclear weapons will be unbearable for the whole world (1984, 37). In other words, Keohane implicitly accepts Gilpin's material perspective on the decline of American hegemony and tried to find ways to organize cooperation without hegemony.

To conclude, the Liberal decline thesis argues decline has happened during the 1970s and there is a crucial need to find to bolster cooperation among states since it was the hegemons duty to sustain the international order. This view is based on the idea that "international orders do not just rise and decline, they also evolve" (Ikenberry 2014, 105). For example, American led world order is an expanded version of British world order (Ikenberry 2014) and "the transition from Pax Britannica to Pax Americana may have been uniquely peaceful" (Kupchan 2014, 21) since both international orders rested on liberal hegemonic order. Moreover, liberals argue that once the international order successfully established it become self-sustaining since lesser states have become vested in the international order led by American hegemony (Lake 2014, 77). Even though relatively US power wanes, liberals argue that those states will continue to tie themselves with the US because it is stable, open, and rule-based (Ikenberry 2014, 99). Finally, the fate of American hegemony "lies in the fate of liberal hegemonic order and liberal internationalism" (Ikenberry 2014, 104), which has been put to a test with different global economic crises. Marxist decline thesis, on the other hand, argues that these crises are an inevitable result of the contradictions of capitalism and financialization. The next section explores the Marxist decline thesis before moving forward to the studies that claim that the US power has not been in decline.

2.2.3.3. Marxist Decline Thesis

In Marxist decline thesis, hegemonic powers rise by their productive edge and fall by the decline in the productive base within this capitalist world-economy. Interestingly, this economically deterministic explanation of the rise and fall of great powers intersects with Realist accounts of rise and fall by arguing that relative decline in the economic efficiency triggers a military struggle that will result in a transition in the world hegemony (Wallerstein 2003). In other words, the rise and fall of hegemony in this perspective is based upon a cyclical transition within which a state loses its hegemonic position to the state that emerges as the new economic powerhouse after a political/military struggle. Moreover, unlike the focus of the Realist thesis of rising and decline that centred on the military aspect, world-systems theory predominantly focuses on the economic side of the issue and offers an explicit theorization of financialization. Finally, both theoretical frameworks read the major structural changes and the rapid decline of the US productivity during the 1970s as an unavoidable sign of the decline of the American hegemony since Britain experienced the same outcome after its financialization during the 1870s.

2.2.3.3.1 World-systems Theory

World-systems theory aims to explore the traces of social change in the modern capitalist system which they called the world-system. While doing that, Wallerstein, Arrighi, Gills, and Frank have followed different empirical routes to make predictions for the future of American power after the structural changes from the 1970s onward.

While Wallerstein focuses on the development of modern capitalism in Europe, Gills and Frank aim to explain the shift from west to the east centred world system. Arrighi, on the other hand, starts the historical development of capitalism from Europe and finally argues that China would become the next hegemon after the 2008 economic crisis that has devastated the US economy. Like the realist understanding of decline, world-system perspectives argue that the decline of American hegemony is inevitable since its economy financialized after the 1970s. This section aims to discuss how world-system perspectives create a causal link between financialization and decline.

For Wallerstein, there are three separate cases of a state achieving a hegemonic position in the world economy: The United Provinces, 1620-1650, the United Kingdom, 1815-1873, and the United States, 1945-1967 (Wallerstein 1984a, 17). These states became hegemonic because of their economic prowess which encompasses an economic efficiency in agro-industrial production, commerce, and finance respectively (Wallerstein 1984a, 40). Like the realist understanding of hegemony, Wallerstein underlines the relationship between military power and hegemonic power. For example, Dutch economic hegemony was destroyed by the military force of Britain and France, not by the relative economic decline of the Dutch hegemony in the world market (Wallerstein 1980a, 38-39). Another similar point with the realist declinist thesis is that Wallerstein argues that the free trade ideology of Britain prepared its doom. Mercantilist policies adopted by the United States and Germany created a competitive environment for the outlets where British merchants sold their goods and get raw materials instead (Wallerstein 1974, 410). Moreover, because of the nature of the world capitalist order within which profit rates eventually diminish in the middle run, hegemons can't transform into political imperium since the cost of political imperium is too high economically (Wallerstein 1974, 412).

Wallerstein argues that hegemonic states lose their economic prowess in the same sequence first in agro-industrial production, than in commerce and finally in the finance as he suggests that “the long-term acquisition of economic relative efficiencies is followed by an equally slow decline of relative efficiencies” (Wallerstein

1984b, 571). He is certain in this assertion because historically no state could maintain its productive advantages over other states forever (Wallerstein 1984a, 17). Just like the Realist decline thesis, Wallerstein dates back the start of British decline to 1873 which marks the British financialization process and claims that the US has been experiencing the same decline trajectory since 1973 when its productive edge started waning (1980b, 119). He was very certain about this suggestion that he claims "[t]he real question is not whether U.S hegemony is wearing but whether the United States can devise a way to descend gracefully" (Wallerstein 2003, 32). Wallerstein believes that the rise of the US to global hegemony started with the world recession of 1873 and while Britain started declining, the US and Germany started their struggle to replace Britain (2003, 13). Briefly, Wallerstein argues that the US took over the role of global hegemon by increasing its share of global markets, providing a stable political base and its superior productivity (2003, 13).

The global hegemony of the US further materialized by the end of the Second World War. Critically, Wallerstein claims that the very economic, political, and military developments that contributed to the US hegemony are inevitably causing the decline of its economy (2003, 13). He claims that the US success as a hegemonic power in the post-war created the very conditions that have resulted in its decline. Reconstruction of the western-European and Japanese economies to provide healthy markets to the American goods with the Marshall Plan proved to be so successful that by the 1960s it created a gold crisis because of the volatile US dollar (Wallerstein 1974, 412). By the end of the 1960s, with the cumulative pressures of the Vietnam War, the stage was set for financialization. Wallerstein explains the reasons for American decline as economic, ideological and military, and symbolizes these realms with important developments. Wallerstein argues that the Vietnam War, the revolutions of 1968, the fall of the Berlin Wall in 1989, and terrorist attacks on 11 September 2001 are the symbols of the American decline in general and each symbol built on the prior one.

The war in Vietnam was not only a military defeat for Wallerstein but also a major blow to the American economy (2003, 17). The economic situation within the

US and the ever-increasing cost of the war added to the increasingly malicious image of the US in the Third World. Yet before the Vietnam War, the US had been the most powerful supporter of the anti-colonial movements. As a result of the Vietnam War, official American ideology as anti-fascist, anti-communist and anti-colonialist came to see thin, but more importantly, it triggered the economic stagnation of the 1970s (Wallerstein 2003, 19). The first result of the economic stagnation was the "collapse of developmentalism – the notion that every nation could catch up economically if the state took appropriate action" (Wallerstein 2003, 19). Secondly, this stagnation gave way to neoliberal economic policies all around the world starting from the US. These policies "reduced the cost of labour, minimized environmental constraints on producers …, and cut back on state welfare benefits" (Wallerstein 2003, 20). Also, international financial institutions influenced by the US hegemony, such as IMF (International Monetary Fund), WTO, and World Economic Forum gained more importance in organizing the international economy.

The third symbolic event that Wallerstein chooses to explain American decline is the collapse of the Soviet Union. He argues that the liberal ideology that was hindered by the Vietnam War collapsed with the collapse of Communism since Communism was "the only ideological justification behind U.S. hegemony" (Wallerstein 2003, 21). It also removed the political balance between the unipolar world and in return, the US became the only country responsible for solving problems such as the invasion of Kuwait, or the Bosnian War. Wallerstein argues that because of this reason the US needed ever-increasing military presence all around the world, yet it simply didn't have enough capacity to deal with all problems which in turn resembles Kennedy's 'imperial overstretch' framework (2003). For example, for Wallerstein, the First Gulf War demonstrates that the US military was not powerful enough to deal properly with a regional power (2003, 23). It also shows that "one could pick a fight with the United States and get away with it" (Wallerstein 2003, 23). A second problem that the collapse of Communism created was the rise of the imperial tendencies among the US policymakers. Wallerstein argues that US policymakers believe that the US has enough power to act on its own in global matters since no state can oppose its will (2003, 23). Furthermore, for Wallerstein, these policies will be unlikely to reverse the decline of the US it will make it much more rapid since the ideological appeal of the US will decrease with each and every unilateral action. Clearly, Wallerstein understands the ideological aspect of the US hegemony as a policy approval of other states. And as of 2003, he argues that the political, economic, and military actions taken by the Bush Jr. administration would transform gradual descent dating back to 1973 into a turbulent fall.

2.2.3.3.2. Systemic cycles of rise and fall

The operation of the systemic cycles of accumulation lies at the core of Arrighi's work that is used to explain social change through successive cycles within the world economy. Each one of these cycles encompasses two phases: first, a phase of material expansion, in which capitalists mainly profit from investments in production and trade of commodities, and when the trade does not generate sufficient returns because of competition in the market, accumulation of wealth transforms into the phase of financial expansion in which profit comes primarily from borrowing, lending and speculating (Arrighi 1997, 154). For Arrighi, every single epoch from the thirteenth-century Italian city-states to the ongoing Pax Americana started with a certain transformation in the mode of production, which resulted in a massive accumulation of wealth. However, this material expansion comes to an end with the system-wide financial expansions. Arrighi and Silver argue that these financial expansions are the consequences of "an over-accumulation of capital and intense interstate competition for mobile capital" (1999, 31).

Arrighi theoretically tracks Marx's formula of capital to distinguish phases of systemic cycles of accumulation. Marx's formulation of accumulation defines money (M) as the tool for the capitalist investor to purchase commodities (C) and sell them in the market to gain more money (M') (Arrighi 2007, 75). However, when investment in trade yields high risk and low returns, capitalists tend to skip the second process and turn their money capital (M) into money capital (M') as encapsulated in Marx's abridged formula of capital, M-M’ (Arrighi 1997, 154; 2007, 75). Arrighi argues that the maturity of the development of the capitalist world economy is “heralded by a particular switch from trade in commodities to trade in the money” (2010, 111). Supporting this idea, Arrighi argues that during these financial expansions the “leading agency of systemic process of accumulation begins to switch its capital in increasing quantities from trade and production to financial intermediation and speculation” (Arrighi 2010, 220). During this switch from material to financial accumulation, the decreasing profits, increasing competitive pressures on the system’s governmental and business agencies intensify the interstate competition for mobile capital and for Arrighi “the stage is set for the change of phase from material to financial expansion” (1997, 155-156). For Arrighi, financialization is the clear signal for the crisis since through this process an illusionary and renewed prosperity occurs that is impossible to sustain without a productive form of accumulation. Hence, relocated surplus capital becomes the motor force of new production and trade expansion in another state and a new cycle starts. Arrighi argues that these epochs of material expansion and financial expansion together constitute a full systemic cycle of accumulation (2010, 6)

The modern world-system, Arrighi argues, has been “formed by, and has expanded based on, recurrent fundamental restructurings led and governed by successive hegemonic states” (1994, 31-32). Arrighi views the development of the modern world-system as a linear process in which successive hegemons have formed, governed and expanded this system (Arrighi and Silver 1999; Arrighi 2010). Arrighi claims that the modern world system started with the emergence of a “Genoese business diaspora” which was superseded by “the Dutch proto-nation state and its chartered companies.” Later the “British nation-state and its formal empire and world-encompassing informal business networks” replaced the Netherlands as the world hegemon and finally “the continent-sized United States and its panoply of transnational corporations and far-flung networks of quasi-permanent oversees military bases” replaced British hegemony (Arrighi 1997, 155). Arrighi argues that each hegemonic phase experienced the same historical path for their rise and fall, first a material expansion and later a financial expansion. While during the material expansion phase those states acquired a hegemonic position, with the financial expansion their decline started.

For Arrighi, it is the successful combination of the Industrial Revolution and the destruction of any barrier or competition to British overseas trade after the Congress of Vienna raised Britain to a hegemonic position. Because of this unchallenged position in the world economy, British manufacturers "possessed overwhelming preponderance amid generalized free trade" (Anderson 1987, 33). However, as discussed earlier due to the diminishing returns of profit from production and trade, by 1873 material expansion of British hegemony had ended and financial expansion of the British economy had started. Because of financialization "surplus capital moved ever more massively out of trade and production" (Arrighi 1993, 177). At first glance, financialization created even more prosperity to the certain aspects of the British economy. Yet, this prosperity was materialized for only certain groups as finance mostly fostered a small elite portion of any national population (Phillips 1993, 197). This kind of financial gains could not be sustained longer since a large portion of the society struggles against competition abroad. As a result, England's role as the workshop of the world replaced by a new term: "the clearinghouse of the world economy" (Rubinstein 1977, 113).

According to Arrighi, the most serious structural problem that the British regime faced was the intensity of inter-capitalist competition (1994, 277). Arrighi claims that the financialization of the British economy did not lead to a direct economic decline. Rather, he claims that this "system-wide intensification of competitive pressures on the agencies of capital accumulation" caused British economic decline in the long term (Arrighi 1994, 168). British monopoly of many critical industries, such as steel, now became the realm of the competition among the European bourgeoisie. As discussed earlier, Britain didn't make any structural changes to regain its pre-eminence in the productive spheres. Arrighi claims that Britain "managed to exist without having to restructure its industry" because of its ability to invest in the countries where those capital investments yielded higher returns (Cecco 1984, 37-8; cited in Arrighi 1994, 278). British capital invested large sums of its foreign investments in the United States for future income. For Arrighi, this decision marked the capital flight from declining Britain to the United States. Even though this development paid off at first, it had serious impacts on the British decline with the start of the First World War.

Secondly, inter-enterprise competition for the foreign outlets transformed into the inter-state competition for imperial dominions. This competition among the European bourgeoisie further escalated into the arms race of the Great Powers of Europe (Arrighi 1994, 277). Even though there were many other important reasons for the war, for Arrighi the inter-state competition for colonies was one of the main reasons behind the First World War. During the war, tables were turned since Britain acquired much of its war machinery from the United States. First, these acquisitions reduced the British claims on incomes of their investments in the US (Arrighi 1994, 278). Later, with the extension of war "British assets in the United States were liquidated on the New York Stock Exchange at heavily discounted prices" (Arrighi 1994, 278). As a result, the biggest investor in the US became the biggest debtor. Even though, Britain remained stronger after the war with the Great Depression the financial system in which British prosperity was based came to an end. "The suspension of the gold convertibility of the British pound in September 1931 led to the final destruction of the single web of world commercial and financial transactions on which the fortunes of the City of London were based" (Arrighi 1994, 283).

Critically, Arrighi compares this earlier experience of Britain's long-lasting stagnation of 1873-93 and the illusionary effects of its financialization with the American financialization between 1973-93. The main reason behind this comparison is that in both cases states experienced a crisis of profitability and their economic fortunes shifted from productive to financial. After the Second World War, economic structuring of the American hegemony with the Marshall Plan and Bretton Woods setting created a long boom of productivity and profitability not just for the American economy but also revived West European countries and Japan. However, by the mid-1960s this revival created the crisis of profitability and dollar liquidity.

Like other declinist frameworks, Arrighi claims that the reconstruction of west European and Japanese economies boosted American trade and production at first, however in the long run, the Japanese and West European economies had caught up with the US, and their productivity created the crisis of profitability (Arrighi 2007, 105). The US responded to this decline in the rate of return on the capital stock of the US manufacturers by devalued the dollar relative to the Japanese yen and the German mark (Arrighi 2007, 103). Eventually, the destabilized US dollar disturbed the international fixed exchange system, which was established by the US at the end of the Second World War. Moreover, like Wallerstein, Arrighi also suggests that the Korean War had some important impacts on American hegemony. Even though massive rearmament of the US during the Korean War solved "once and for all the liquidity problems of the post-war economy" (Arrighi 1994, 306), it also laid the foundation of American financialization and decline. Like Wallerstein, Arrighi claims that the US "lost much of its political credibility as a global policeman" (1994, 155). Along with this political failure, the US also lost control of the monetary system that had been constructed by itself in the first place.

Like Wallerstein, Arrighi argues that this shift from dollar-gold standard to a floating exchange rate was one of the key moments to bolster American decline. However, the interesting point here is that Arrighi also accepts that this financialization of the American economy restored US trade balance to a surplus and "profitability, investment growth, and labour productivity in manufacturing staged a comeback" (2007, 105). Crucially, Arrighi distinguishes himself from other declinist frameworks by arguing that the financialization process returned US productivity in the short run but this only postponed American decline for some time. In Arrighi's framework, the financialization of 1973 was a signal crisis that the USA did not respond well and adjust to the decline. Hence, American policies that were adopted after 1973 have paved the way for a terminal crisis of American hegemony. Just like British financialization, the US financialization resulted in "a major intensification of competitive pressures on each and every governmental and business organization of the capitalist world-economy and in a consequent massive withdrawal of money capital from trade and production” (Arrighi 1994, 307).

2.2.4 Decline revisited

The decline of American hegemony has been a popular and controversial issue for several decades now. As Joffe (2014, xii) puts it humorously “decline is as American as apple pie”. While the declinist studies sparked so much attention in the public, there has been an increasing opposition against the declinist theses within the academia. During the 1980s a series of publications attacked declinist studies especially against HST (Stein 1984, Snidal 1985, Russett 1985, Strange 1987, Huntington 1988). These works opened up a venue for declinist debates. This section discusses the main lines of arguments against the declinist literature and how this thesis departs from and/or employs those arguments.

Many contributors to the declinist literature have preferred employing determinants that are countable such as share of world gross national product (GNP), production share of raw materials or manufacturers of key industries, and trade share in the world economy. However, as Russett (1985) points out these studies have focused on power as a base that has no direct influence on the control over outcomes. While quantifiable indicators allow us to understand the base of state power, control over outcomes can only be inferred from historical evidence (Strange 1987, 554; Huntington 1988, 77). Russett (1985, 231) criticizes the declinist studies on the ground that their empirical assumptions depart from reality since they focus solely on one dimension of state power. Moreover, the lack of a multi-dimensional analysis of power limits the range of theoretical applicability to special conditions (Snidal 1985, 579). Strange (1987) offers the concept of ‘structural power’ to avoid the fallacy of single dimension analysis of the declinist literature. The structural power is concerned with physical security, control the system of production, determine the structure of finance and credit, and influence over knowledge which in many respects quite similar to the Gramscian understanding of hegemony. Russett

(1985, 229), on the other hand, concedes that the Gramscian understanding of cultural hegemony offers a wider range of analysis for the control over outcomes while he argues that how Gramscian ideas of influence are difficult to operationalize.

Additionally, the declinist studies often compare the decline of the US by comparing the sheer power of the US to other countries (Huntington 1988, 76), which also reflects itself in the counter-arguments. Almost all studies that have problematized the so-called American decline offer counter-arguments by using the same method: comparing the base power of the US and potential challengers (M. Cox 2007; Joffe 2009, 2014; Nye 2015, 2016). On the other hand, there are a few studies that focus on more fundamental comparison to test the presumptions of the declinist studies: British and American cases (Stein 1984; Russett 1985; Strange 1987; Lake 2002). The studies that make the comparison of British and American decline as a point of departure offer a more in-depth critique of declinist studies. Especially, the comparison of the British and American cases according to their policy orientation towards free trade and protectionism is critical to test the presumption of "hegemonic powers pursue free trade" of HST and offer both conceptually and empirically different accounts of rise and decline for both cases (Stein 1984, Strange 1987). In both studies, Stein (1984) and Strange (1987) argue that free trade preference of the hegemonic powers as framed in the HST does not match with the historical evidence. Stein (1984, 383) argues that historical evidence derived from both British and American cases demonstrates that it is the increasing cost of commitment to free trade underlines the relative decline of hegemonic powers. However, the historical analysis of these works offers only counter-factual attacks against HST. On the other hand, this thesis argues that the historical analysis of the policymaking of domestic tariff policies reveals the true nature of a hegemonic struggle within society.

It was the neo-Gramscian critique of the declinist thesis that has opened new sights in the literature. First, neo-Gramscian studies criticise the realist, world-systems, and liberal concept hegemony, power and the international system in the declinist studies (Gill 1988, 1990, 1993; Cox 1987, 1989, 1993). The first problem arises from the realist construct of declinist studies in the literature in which the states are the primary actors in the international system. This understanding reduces the concept of civil society to the narrowly materialistic sense and over-emphasize the economic and military aspects of hegemonic powers (Gill 1988, 7). Hegemony in neo-Gramscian conceptualization is first established in a state by the dominant social forces, which may expand a particular form of the social relations of production on a world scale and manifest itself through the world order (Cox 1987, 150). A world hegemony is an outward expansion of the internal hegemony established by a social class (Cox 1983, 171). After being a world hegemony, it can connect the social forces of different countries by mechanisms of international organizations. Thus, hegemony can operate at two mutually constitutive levels: "by constructing an historical bloc and establishing social cohesion within a form of state as well as by expanding a mode of production internationally and projecting hegemony through the level of world order" (Bieler and Morton 2014, 93).

A second issue arises from the conceptualization of power in the declinist studies. As discussed above in great detail, the mainstream approaches use a single dimension of power in which power over others is measured through empiricist analysis. However, these approaches overlook the ideological and institutional aspects of American power. However, the neo-Gramscian conceptualization of hegemony offers a better understanding of the power of a hegemon. Hegemony in this thesis is understood as a form of power that is broadly based on consent, with the acknowledgment of the ideas sustained by material capabilities, and institutions, which is the outcome of the class struggle within the state that leads to profound social and economic change and may project on a world scale (Morton 2003, 156; Bieler and Morton 2004, 87; Morton 2007, 113). Moreover, the concept of hegemony in this research is characterized "by the combination of force and consent, which balance each other reciprocally, without force predominating to greatly over consent" (Gramsci 1971, 80). This definition of hegemony allows this research to move beyond the singular dimension of power which predominantly focuses on material domination of a state over others, which ignores the role of ideology.

A third issue in the literature is their essentialist understanding of history that generates a view of repetitive cycles of hegemonic decline and fall (Gill 1988, 6). As discussed in great detail the declinist literature takes a decline of hegemonic powers as granted and they ask the question ‘when’, rather than ‘if a hegemonic power is in decline? The successive transition of hegemony to one state to another poses a great constraint to the analysis of the decline of hegemonic powers because, historically, there have been several nations and states that have gained relative power over others (Abu-Lughod 1989, 341). However, declinist studies perceive this relative power over others as the sign of hegemonic rise and they define the loss of such power as hegemonic decline. Because of this understanding declinist studies tend to exaggerate the loss of relative economic advantages of the US and undervalues aspects of hegemonic world order after the Second World War (Gill 1988). On the other hand, in the neo-Gramscian conceptualization, “decline of hegemony is to be sought less in loss of power than in a tendency towards unilateralism in furtherance of specific interests” (Cox 1989, 829). This understanding moves beyond the behaviouralist form of power in the declinist studies which may be perceived and measured by an empiricist methodology (Gill 1990, 63).

While the conceptually neo-Gramscian framework offers a better understanding of decline, empirically there are exclusive accounts of rise and decline in the literature. Briefly, the US after the Second World War was the dominant power and its dominance was expressed in leadership which is enshrined in certain principles of conduct that became broadly acceptable (Cox 1993, 264). However, almost all studies in the neo-Gramscian literature accept that there have been structural changes in the American hegemony starting in late the 1960s but climaxed in the 1970s. Gill (1988, 1990, 1993) argues that these structural changes and the qualitative differences of the American hegemony from previous hegemonic powers have to lead to a transnational hegemony of the dominant capitalist class in which American hegemony still plays a central role. Cox (1987, 1989, 1993) on the other hand argues that after the structural changes in the 1970sUS power may not decline either absolutely or relatively but the true nature of the world order can no longer be described as hegemonic. Upon this premise, Cox suggests that the US hegemony could be restored only if the US and Japanese economy could be further integrated based on Japanese financing of the US trade and budget deficits (Cox 1989, 839). In many cases, neo-Gramscian works do not offer a comparison of British and American cases.

Another critical point in the neo-Gramscian framework is the different empirical accounts of the rise and decline of British and American hegemony. Lacher and Germann (2012, 107) argue that two mutually exclusive accounts employ the same conceptual framework for different results. While for Cox it was bourgeoise hegemony that struggled against mercantilist historical bloc in which "the dominance of industry over society was making the bourgeoise a hegemonic ruling class" (1987, 431), for Overbeek new historical bloc "was still largely defined in aristocratic terms (1990, 45). Moreover, for Cox, the rise of the British hegemony is characterized by the "free trade imperialism", this thesis disagrees with this argument and argues that while imperialism connotes with a system that is not broadly based on consent. The rise of British hegemony in this thesis is characterized by the "cosmopolitan free trade" which is more in line with the neo-Gramscian conceptualization of hegemony and the empirical reality. Moreover, the issue of decline has not been clearly outlined while the rise of the hegemonic power was analytically framed as discussed in detail. It was defined as loss of consensual power or increasing usage of coercive power in international relations or the inability to lead the world order. Cox (1987, 279) argues that during the 1970s hegemonic neoliberal historical bloc was disintegrated. Yet, this thesis argues that it was the Keynesian historical bloc that was hegemonic prior to the 1970s and the neoliberal hegemonic historical bloc had established during the 1970s and further expanded transnationally as Gill suggests.

However, there are some important criticisms of the neo-Gramscian explanation of the expansion of liberal internationalism under the aegis of British hegemony. These arguments shaped by the fact that the British state had no role whatsoever in expanding British hegemony to continental Europe. Lacher and Germann (2012, 99) argue the concept of hegemony in the neo-Gramscian framework needs to be historicized since the American and British cases are quite different than one another and British case fails to demonstrate neo-Gramscian aspects of the world hegemony. A similar question has been raised by James Parisot (2015); has British hegemony ever existed? He argues that "there may be a fundamental problem with not only the historical interpretations of American and British supremacy but also the conceptual tools used to make sense of the role of these powers" (Parisot 2015, 156). These authors claim that "Britain, however liberal and powerful, did not assume the role of hegemon at the centre of a newly emergent international liberal order as typically thought" (Lathem 1997). Moreover, Lathem (1997) argues that the neo-Gramscian understanding of world orders resembles with other mainstream approaches as it adopts a "state-governed approach" to explain the interstate relations. In line with this argument, Benno Teschke (2014) argues that the neo-Gramscian approach fails to "theorize the international". Similarly, Lacher and Germann (2012) claim that the neo-Gramscian framework offers a mutually exclusive account of the social forces underpinning domestic and international hegemony. and establish a causal relationship

While some of these criticisms have valid points, some of them are based on a similar empiricist fallacy of the mainstream approaches. All in all, there is little evidence that the neo-Gramscian framework explains the relationship between financialization and the decline of hegemonic powers. One important problem that neo-Gramscian framework presents is the fact that there is no clear comprehensive analytical framework of hegemonic decline while the rise of hegemonic powers is clearly framed. While in the rise of hegemonic power, the rise is measured through class analysis, decline, on the other hand, is explained by interstate relations. It is true that once a hegemonic power establishes itself within a state structure and expands it becomes an international phenomenon. However, I argue that the role of class struggle or clash of historical blocs within a society could also lead to a decline. The next chapter of this thesis will offer a conceptualization of financialization as a form of social relations of production that would unravel the relationship between financialization and decline which could overcome the shortcomings of the neo-Gramscian framework. By doing so, this thesis will provide answers to some of the criticisms given above and will add itself to the growing body of the neo-Gramscian literature.

2.5 Conclusion

This chapter presents a literature review of the concept of hegemony as a form of power and further discusses literature to reveal how they construe the issue of decline. The first part of the chapter classifies the existing literature into three distinctive analytical frameworks by using the 'three dimensions of power' borrowed from Steven Lukes (1974). Moreover, this section clarifies the domination/leadership dichotomy in the literature and reveals how hegemony is defined in each category. The second part of the chapter provides conceptual and historical evidence to understand how hegemonic rise and decline are framed.

Hegemony construed as a form of power has different connotations for different frameworks. Realist political economy in that sense could fit into what Steven Lukes calls the 'first dimension of power', which defines the power of hegemony as the control of one state over other states. The second dimension of power involves the structural use of power. World-systems theory in this perspective offers an economically structured account of power in which, rise and decline of a hegemonic power are measured by its control over the realms of production, trade, and finance respectively. In this framework, the relationship between the hegemon and the rest is defined as a form of domination. This relation of domination is predetermined by the rules of capitalism. The third dimension of power is best characterized by the neo-Gramscian understanding of hegemony. This dimension offers a critique of the first dimensions and underlines the important role of the system of ideas in power debates. This type of power concerns not only the rules of the game but also how those rules have systematically embedded into the social structures and how the dominated have internalized domination. Neo-Gramscian understanding of power allows this thesis to grasp the multidimensional aspects of the hegemonic powers and how they decline.

In the neo-Gramscian understanding of hegemony, power is understood as a form of domination of the ruling class in which ideas of dominant ideology are embedded into the social structures that ensure the reproduction of the relations of power. Hegemony in Gramsci is clearly contrasted with power-based dominance and demonstrates the leadership position of a social group in the political and social arena (1999, 20). However, this should not be understood as the absence of domination, as Gramsci elsewhere argues that "hegemony [is] protected by the armour of coercion" (1971, 263). Hegemony in this framework could be best characterized as the successful combination of coercion and consent where leadership foreruns domination. This understanding helps us to understand the multi-dimensional aspects of power relations between hegemony and the rest. Hence, this definition of hegemony allows us to move beyond domination/leadership dualism and focus on how the power of a social group is exercised through the successful combination of base and superstructure.

The second part of this chapter has discussed how financialization is defined and causally related to the decline of hegemonic powers. Briefly, financialization refers to the increasing role of financial markets, actors and institutions in the operation of both domestic and international economies (Epstein 2005, 3). In other words, financialization is a pattern of accumulation like production or trade-in which profit-making occurs through financial channels (Krippner 2005, 173). As a measurement tool, there are two types of decline used in the literature. The first one is relative decline which is measured by the relative economic and military power of the hegemony compared to (1) other states, and (2) its former capabilities. This type of measurement has been used by almost all of the studies concerning American power after the 1970s. The second measurement tool is absolute decline which measures society's "loss of cohesion and inventiveness" in general, in Nye's words (1988, 106).

There are two inseparable components in the Realist decline thesis: economic and military power. As discussed earlier, a great power should acquire a position of economic power and expand this power to the military realm to become hegemonic.

Industrial supremacy and productive efficiency lie at the exact centre of this conceptualization as it links economic and military power together. This decline thesis argues that the historically power of the hegemon diminishes in time due to internal and external factors. Financialization appears to be the most important unavoidable internal reason for the decline that its effects transcend into external factors. Financialization in this respect weakens the industrial base of the hegemonic power which in turn has a massive impact on both military spending and the military-industrial complex. Secondly, due to financialization, there was capital outflow to other states as investments which in return strengthens the economy of the potential challengers. Increasing the economic capabilities of the challenger states increase the possibility of a hegemonic struggle since, with their increasing productive edge, potential challengers could benefit more if they could establish their own economic world order. However, this zero-sum understanding of power fails to grasp the dynamic nature of the financialization. Financialization is not something that only weakens the most powerful state and strengthens potential challengers. It is not only an outward action in which the capital flows out from a hegemon to other states, but it is also an inward action within which capital moves from other states to the hegemonic power.

Moreover, in Realist decline thesis, it is argued that British state was in a position to arrest if not reverse the decline of British hegemony by implementing protectionist policies, but British statesmen were unable to adopt those policies because they were "caught in a set of ideological traps" (Gilpin 1987, 115). Even though this is such a crucial starting point to question the analogies between Britain and the USA, it was mentioned casually, in passing. This is because the Realist decline thesis lacks an agential perspective that could unravel how class agencies had an impact on financialization and how. Moreover, while comparing British and American financialization, this framework fails to explore whether American capital and American state share the same goals or have American statesmen tried to reverse this decline in the production sphere? All in all, this one-dimensional understanding of financialization fails to grasp the multidimensional nature of the decline of hegemonic powers.

The liberal decline thesis has mainly built upon the Realist understanding of decline, and Gilpin's works have especially had an important impact on the Liberal decline thesis. Just like the Realist understanding of power, the power of the hegemonic power measured by its ability to rule the world economy. But unlike the Realist understanding of power, this rule stems from leadership through cooperation with the lesser states and the hegemon bind its power through rules and norms. The liberal decline thesis accepts the Realist premise of American decline but challenged the idea of hegemonic transition and looked for ways to sustain existing international order which creates harmony among interstate relations without a hegemonic power. The main idea behind this argument is the "international orders do not just rise and decline, they also evolve" (Ikenberry 2014, 105) and the impossibility of the hegemonic transition through war and change in the age of nuclear warfare. Finally, this perspective ties US power with the liberal international order that it has established after the Second World War. In other words, in this perspective, even though the US has been economically declining, the enhancement of stable, open, rule-based international order would help the US to sustain its hegemony (Ikenberry 2014, 99-104). As discussed earlier in detail, this perspective does not offer an exclusive rise and decline comparison of British and American cases, rather focuses on how to preserve existing power structure after hegemonic power declines.

The final mainstream declinist theory this chapter discusses is the world-systems decline thesis. World-systems theory offers a structural and cyclical understanding of rise and decline of great powers. Hegemony in world-systems theory refers to the exploitation and domination of the weak periphery states by the strong core states. Capitalist development in the world-systems refers to a singular dialectical process within which modern nation-states developed and arise to the hegemonic position within the world-economy after having a productive edge over other states. Moreover, Wallerstein argues that "the long-term acquisition of economic relative efficiencies is followed by an equally slow decline of relative efficiencies and hegemon states lose their economic edge in the same sequence (1984a, 1984b). This system works with price movements in world-systems theory. By price movements, Wallerstein refers to the pattern of secular inflation and deflation rates (1984a, 571). Within this framework, he argues that each cycle consists of two phases, while phase A means capitalist expansion, phase B refers to the relative stagnation. During the first phase, a new hegemonic power arises in the world-system and in the second phase hegemonic power struggles to sustain its power. In the world-systems, it is not possible to halt the inevitable decline of hegemony since it is an economic fact rather than policy choices. In other words, unlike realist argumentation, the world-systems theory suggests that change in economic policies would not reverse the decline of the US. This argument leads us to the role of financialization in the world-system framework.

Financialization is a central concept in the rise and decline of hegemonic powers in the world-system framework. As discussed earlier there are two different phases. Arrighi calls these two phases of material and financial expansion respectively. Financialization represents one of the most important underpinnings of the capitalist world system, wherein the long cycle of economic growth always comes to an end with financialization. It is this logic that world-systems theory argues that Great Britain and the USA followed the same decline pattern: a long economic growth starting with a productive edge and later control over trade and finally an increasing lean towards the financial means. In this framework, the main premises behind financialization leading to irreversible decline are; (1) financialization creates illusionary prosperity which could not be sustained as an accumulation regime as long as productive accumulation, (2) only a small elite, agents of the high finance take advantage of this illusionary prosperity while the rest of the society struggle with inter-capitalist struggle, (3) capital flight from hegemonic power to other countries as a form of investment in their economies.

All in all, common problems in the declinist literature are: (1) inferring American decline from the British decline as for most of them those two cases follow same historical patterns of rise and decline; (2) they all are analysing the power relations in the interstate system even though the material basis of the power of states is generated first within the society; (3) they all measure decline of hegemonic powers in the form of relative decline; (4) they promote an economically deterministic understanding of decline that treats financialization as the cause of the decline.

The neo-Gramscian theory of hegemony offers an alternative rise and decline trajectory for hegemonic powers. The power of a social group in this perspective is derived from production relations. Production in its simplest terms provides the wealth that generates power but in the neo-Gramscian framework, it is the realm where the production and reproduction of knowledge, institutions and social relations are covered (Cox 1989, 39). Rather than measuring a state's material capabilities, this perspective reads the history of hegemonic struggle as the history of class struggle in a given society. Hegemony in this perspective could operate at two mutually constitutive levels, "by constructing an historical bloc and establishing social cohesion within a form of state as well as by expanding a mode of production internationally and projecting hegemony through world order" (Bieler and Morton 2014, 93). However, there is a critical issue that needs to be addressed in this framework. While neo-Gramscian studies conceptualize the rise of the hegemonic powers within the national context and explain how it expands internationally, the decline of hegemonic powers in neo-Gramscian studies focus solely on the decline of the world order. This situation creates a disconnection between spheres of activity when explaining the decline of hegemonic powers since once a hegemonic power establishes a world order, some of the neo-Gramscian studies lose track of class struggle within the national context that also has an impact on the power of the hegemony.

The operationalization of hegemony in the neo-Gramscian framework starts with production relations. Production in a neo-Gramscian sense involves not only production of material goods and generate wealth which is the basis of power but also production and reproduction of ideas that would create consent among other class fractions and enhance the strength of the dominant mode of production. This power material and ideological power generated through social relations of production allows a historical bloc consists of different class fractions to bid for a hegemonic position in society. As discussed above, this method implies achieving hegemony through sustaining social cohesion in a society. The second way that hegemony could operate is expanding a mode of production internationally and projecting hegemony through world order. Critically, neo-Gramscian literature often uses the first level of analysis and explains the rise of a hegemonic order from national to the international level which includes an analysis of a class contestation in a given society and later expands and leads a world order. However, the same studies almost ignore the class struggle in a given society and predominantly focus on the state of world order. This is the main reason for different accounts of the decline in the neo-Gramscian literature. This thesis, on the other hand, argues that analysing the class struggle and its relations with financialization allows this thesis to offer a fresh analysis of the decline of hegemonic powers and so-called American decline.

Finally, the declinist theses define financialization too narrowly and deterministic and yet they put a very strong emphasis on its impact on the decline of hegemonic powers. This understanding ignores the agency of different class fractions and the state in the making of financialization as well as its consequences. This thesis, on the other hand, construes financialization as a form of social relations of production, which is also missing in the neo-Gramscian literature. By conceptualizing financialization from a neo-Gramscian vantage point, this thesis moves beyond the limited analysis of the decline of hegemony in the literature and offers a fresh analysis of the congruence between financialization and decline of hegemonic powers. Financialization in this framework represents the disintegration of the hegemonic historical bloc which is the result of inter-capitalist struggle and further increases the struggle between different class fractions. In this thesis, this struggle undermines social cohesion and hegemonic leadership a historical bloc exercise. This fresh conceptualization allows this thesis to answer the question of whether a hegemonic power declines after experiencing financialization would be linked not only to a change in the material capabilities of the hegemony but also to the class contestation in the society which has been limited to a certain level by the consensual leadership of the hegemonic historical bloc. The next chapter of this research discusses key concepts in the neo-Gramscian framework and operationalize these concepts to frame financialization.

Chapter Three: Social Relations of Production, Financialization, and the decline of hegemony

The central aim of this thesis is to compare and analyse the financialization of British and American hegemony through a neo-Gramscian framework which examines the dialectical process of formation and reformation of hegemony within the state. The previous chapter critically assessed the literature and three important shortcomings of these frameworks are determined. First, these mainstream approaches offer a materially deterministic understanding that argues financialization leads to an irreversible decline of hegemony. Second, these perspectives only provide a state-centric explanation of rise and decline of hegemony which ignores the agency of the class structure in each case. Third, the separation of the realm of politics and economics reduce production only to the extent of generation of material wealth and treat state as a technical entity. There are two major premises of the literature that I reviewed in the previous chapter: decline is irreversible and financialization leads to decline. The logic behind these premises is rooted in the economy and ignores the role of ideological power. Building upon the previous chapter, this chapter will now develop a conceptual alternative to the congruence between financialization and the decline of hegemony from a critical neo-Gramscian vantage point. This much required analysis will allow this thesis to move beyond materialistic and state centric understanding of decline of hegemonic powers in the literature. The aim of this chapter is to conceptualize concepts of social relations of production, historical bloc, and financialization from a neo-Gramscian perspective. This conceptual framework allows this research to answer the questions whether financialization leads to decline of hegemonic power and whether it is irreversible, as well as understand the role of class fractions in the making of financialization. The next part of this chapter will clarify the concepts of social relations of production, historical bloc, and forms of state from a neo-Gramscian vantage point. This conceptual framework will shed light on the operationalization of the concepts in this research since the relationship between the national and international, or between hegemony and supremacy, may differ from one neo-Gramscian perspective to the next (Bieler and Morton 2004, 102).

3.1 Social Relations of Production

The problematic nature of the conceptualization of financialization in the literature lays in the separation of the politics and economics in general and a dualist understanding of relation between state and market. Especially, both neo-realist and world-systems approaches accept state and market as separate entities that were taken granted. However, there is a reciprocal relation between state and market that needs to be analysed further, rather than reduce market to a technical arena in which state intervenes externally (Burnham 1995, 136). This thesis argues that the dualist reading of the neo-realist and world-system perspectives that separates the realm of the economy from the political leads to the generation a correlation between financialization and the decline of the power of the hegemon in both British and American cases. However, as Bieler (2011, 166) argues, consideration of the political and the economic as separate and external to each other causes the social relations of production be disregarded in analysis. This is the main reason for the failure of realist and world-systems perspectives. Hence, I argue that a fresh conceptualization of financialization by accepting it as a form of social relations of production would allow us to provide a better understanding for the decline debates.

In this perspective, social relations of production are the vantage point for analysing the operation of hegemony (Cox 1987, 3-8). Yet, as Adam David Morton (2007) correctly points out, it should not be understood "as a move that reduces everything to production in an economistic sense" (116). In contrast, Cox (1989, 39) argues that;

> [Production] is not confined to the production of physical goods used or consumed. It covers the production and reproduction of knowledge and of the social relations, morals and institutions that are prerequisites to the production of physical goods.

The nexus between social relations of production and power are key in the neo-Gramscian conceptualization of hegemony. In this perspective, production not only generates the material basis for all forms of social existence and the capacity to exercise power, but it also creates resources that can be transformed within the state and world order (Cox 1987, 1-5). Therefore, origins and patterns of production are the "starting point for analysing the operation and mechanisms of hegemony" (Morton 2007, 116). It is crucial to understand class relations when analysing hegemony since these relations "provide the link between economy and politics, between production and power" (Cox 1987, 1). Social classes in this context refers to groupings of classes in the society defined principally but not exclusively by their place in the production process (Poulantzas 1975, 14).

In Cox's conceptualization, the social relations of production appear in three analytical ways. First, the relations of production create the social context within which the decisions regarding the actual production process are taken (Cox 1987, 11). Briefly, this refers to what and how things are produced in the social context of production. The second aspect of the social relations of production is internal to the production process in which structure of the authority is decided and deciding the roles in the production process (Cox 1987, 12). In other words, this aspect of social relations of production is deciding the division of labour. Finally, the third aspect of the social relations of production is the distribution of the outcomes of the production. Basically, this aspect of the production process is the one in which the power struggle between class forces determines the distribution of the rewards of the production (Cox 1987, 12). These three analytical aspects of the production relations dialectically form a single historical whole which is called social relations of production. Within this historical whole, dominant and subordinate social classes struggle to gain more power. The most important struggle relation in this process is

> [t]he division of the product between those who command and those who execute, between dominant and subordinate groups, and, of that which is retained by the dominant group, the division between what is consumed or hoarded and what is invested. (Cox 1987, 21)

Thus, it can be claimed that the basis of social strife is rooted in production relations. Yet, one should remember that this process differs in each social milieu and, therefore, requires specific inquiry into the mode of social relations of production in that specific context. The very existence of each mode of social production is produced by the former collective experiences of historical realities (Cox 1987, 18). Thus, it is important to note that when someone aims to study a mode of social relations of production, he/she should investigate the class structure in an existing society (Cox 1987, 18). If we take class struggle as a starting point, we might be able to understand the structure of social power from the cumulative consequences of the struggle (Cox 1987, 12). Furthermore, the historical evolution of the class structure that is originated in the production process "transcends the specific activity of production to become human aggregates, collective ways of feeling and of acting" (Cox 1987, 18). Basically, the power of the dominant social class is rooted in their control of production in time and their ability to accumulate material wealth. The material resources that "derived from production have been translated over time into positions of wealth, social influence, and prestige" (Cox 1987, 18). Additionally, the power that a dominant social group have derived from production process can also be transformed into political power. Cox (1987, 18) defines political power as "the power to control the machinery of the state or to influence government policy". In return, a dominant group that acquired political power can use this power in the context of production in order to determine what and how things produce (Cox 1987, 17).

However, there is an important flaw in Cox's analysis of social relations of production when it comes to the empirical research. For Cox there is a specific mode of social relations of production for each national context he analysed. He has identified twelve different modes of social relations of production throughout history: subsistence, peasant-lord primitive labour market, household, self-employment, enterprise labour market, bipartism, enterprise corporatism, tripartism, state corporatism, communal, and central planning (Cox, 1987, 32). Cox argues these modes of production capture the essence of class struggle within social forces in the process of production in the modern world. However, a justified criticism of this theoretical classification is it that lacks methodological rigour and "give way to a much more descriptive and haphazard use of the concept of class interests" (Lacher and Germann 2012, 105). Especially, this conceptualization lacks historical detail of the agents of social change because it focuses on a broader meta-theory of social change. Finally, since this analysis is quite Eurocentric it permits researchers to test this analytical framework for non-European cases.

In order to overcome the methodological problems that Cox's analysis presents, this thesis employs *capital fractions* conceptualized by Hilferding, Poulantzas Overbeek and van der Pijl to analyse ideal typical positions of class structure in a society. Basically, fractions of a class are distinguished on the basis of differentiations in the economic sphere, and of the role of political and ideological relations (Poulantzas 1975, 23). Moreover, capital fractions "are structures of socialization by which the fundamental contradiction between capital and labour is articulated in a concrete configurations of classes" (Overbeek and van der Pijl 1993, 3). However, we should not confine class fractions to mode of production alone in which the class struggle exists between the exploited and exploiter since a social formation involves more than two classes (Poulantzas 1975, 22). Moreover, in Overbeek and van der Pijl, forms of capital are distinguished into productive capital, money capital, and commodity capital and class fractions position themselves into these categories according to their specific interest (van der Pijl 1984). The critical point here is the classification of class fractions does not necessarily imply that these particular forms of capital are distinct from one another; rather it is the amalgamation of individual capital interest within a historical whole. Therefore, a fraction of a class may take up a class position that does not correspond to its own class interest (Poulantzas 1975, 15).

On the one hand, productive capital is regarded as the real economy and considered the counterpart of the money capital which is also regarded as fictitious capital defined by Marx (van der Pijl 1984, 7). However, this understanding imposes a dual understanding which limits the analysis of the class struggle which is the principal aspect of an analysis of class fractions that defines the position of each social class according to their role in the class struggle (Poulantzas 1975, 17). Briefly, productive capital refers to concrete factors in contrast to money capital: human labour, raw material, means of production (Overbeek and van der Pijl 2003, 3). Finally, it is important to keep in the mind that money capital cannot exist independently of productive capital since

> […] profits made in the financial sector of the economy are nothing but redistribution of the surplus product created in the productive sector, within or outside the country under consideration. (Overbeek 1980, 101).

Money capital in this respect "is not represented by single capitalists, by the owner of this or that particle of capital present in the market, but it appears as a concentrated, organized mass" (van der Pijl 1984, 22). Critically, Hilferding (1981) argues that industrial capital which belongs to productive capital and banking capital in the money capital class fractions forms finance capital which employs banking credit system for productive purposes which transforms the totality of capitalist interest into a single and general interest. However, as Harvey (1999, 271) argues this situation creates conflict between different class fractions when the crisis occurs the common interests of capital may not match with different class fractions, especially the money capital class fractions. This thesis argues that it is those moments that underlines the hegemonic struggle within the historical bloc. Furthermore, it is this crisis of hegemony within the class fractions that leads to financialization.

3.2 The historical bloc

Poulantzas argues that the capitalist class is divided into competing fractions with different interests which means that it cannot secure general interests by forming tactical alliances and/or mechanical game of compromise (Jessop 1985, 56). The relationship between classes, fractions and strata can only be discerned by taking into consideration the historic perspective of the class struggle (Poulantzas 1975, 27). Although Poulantzas attempted to give Gramsci's concept of hegemony a more systematic formulation (Hall 1980, 62), his definition of 'power bloc' does not refer to the historical context in which different class fractions form a social capital. The notion of historical bloc is pivotal to understand Gramsci's notion of hegemony in general, and the role of financialization in the reconfiguration of the social forces in both Britain and the USA. This conceptual framework allows this research to direct its attention to "what configurations of the social forces lies at the origins of the formation of the historical bloc" (Cox 1987, 409). The concept of historical bloc is applied to the specific social configurations of class structure, existing ideology, and the forms of state in Britain during 1870s and the USA during 1970s in order to compare the formation of the historical bloc in those states prior to financialization.

The term historical bloc connects the concepts of social relations of production to the forms of state the theoretical framework of hegemony. The Gramscian framework of hegemony provides an understanding of "the relationship between base and superstructure and a particular and specific analysis of a given historical and national moment" (Landy 1994, 49). Moreover, the site of reproduction of political and ideological domination and subordination is not reduced to the economic space alone as the classical Marxists might suggest, and the process of reproduction does not consist of a self-regulating economistic automatism but rather amalgamation of the class struggle (Poulantzas 1975, 27). In the neo-Gramscian sense, the concept of historical bloc that encompasses the reciprocal development between the structure and superstructure (Morton 2007, 96). Moreover, "the complex, contradictory and discordant ensemble of superstructures is the reflection of the social relations of production" (Gramsci 1971, 366; cited in Morton 2007, 96). In other words, it is the base and superstructure together that form a historical bloc in Gramscian thinking (Davies 2013). Gramsci (1971, 366) defines the relationship within a historical bloc as an organic link between political and civil society, which is a key term to understand how hegemony is exercised within a constellation of social and political forces. In that sense, historical bloc is a dialectical concept within which its interacting elements create a larger unity (Germain and Kenny 1998, 6).

In the neo-Gramscian understanding of hegemony, the power of the historical bloc is exercised through the state. The capitalist state organizes the hegemony of particular class fractions or historical blocs to the social formation as a whole (Poulantzas 1975, 98). Hence, state formation of a given state articulates the characteristics of the class struggle between different class fractions. In other words, "the nature of the state is also defined by the class structure on which state rests" (Cox 1987, 6). In short, by analysing the formation of different historical blocs, it is possible to conceptualize the social basis and historical content of different formation of states (Bieler and Morton 2004, 91). This historical formation of the historical bloc in the state is not purely juridical and political but "[it] is the outcome of the organic relations between the state or political society and 'civil society'" (Buttigieg 1995, 29). This understanding that considers "different forms of state as the expression of particular historical blocs, and thus relations across state-civil society", helps us to move beyond the state-centric approaches in IPE by giving attention to how class struggle is related to the developments of states (Bieler and Morton 2004, 91). Within this perspective, it is possible to understand the relationship between different class fractions that form a historical bloc and the state as well as the role of class fractions and the state in the making of financialization.

Furthermore, it is important to understand how a social group exerts its power over others by using the state apparatuses. First, it is important to clarify the difference between the state and state apparatus, as the instrumental conceptualization of the State that reduces the state apparatus to state power misses a crucial point which could help us to understand the decisive role played by the State in the reproduction of the social relations of production and the class struggle (Poulantzas 1978, 12-35). As we discussed in the previous chapter in detail, the dominance of a hegemonic social class is not simply exercised through "sanctions, punishments, or inducements" that rests on state power (Gill and Law 1989, 476). "Rather, state actions are constrained by knowledge on the part of the state's agents of what class structure makes possible and what it precludes" (Cox 1987, 6). It is this class structure that "tasks and limits" and becomes "part and parcel of the state" (Cox

1987, 6). Gill and Law (1989, 476; 1993, 94) argue that to become a successful historical bloc, a class friction should be "politically organized around a set of hegemonic ideas, sometimes called dominant ideology", "which give some strategic direction and coherence to the constituent elements". Critical point here is that dominant ideology is not produced by the ideological apparatuses within the State but materialized and reproduced mainly by these apparatuses (Poulantzas 1975, 31). The dominant ideology is created by the what Gramsci calls "organic intellectuals". However, it is important to understand that this ideological power is not simply capturing the state by forming a cross-class alliance. Rather, it is, "a fusion of material, institutional, inter-subjective, theoretical and ideological capabilities" (Gill and Law 1993, 94), which integrates "a variety of different class interests and forms of identity within a 'national-popular' alliance" (Forgacs 1984, cited in Morton 2007, 97).

Following a neo-Gramscian path, this research argues that establishing a historical bloc allows a social group to exert its intellectual and moral leadership over other class fractions and gain the consent of the general population. Furthermore, this intellectual leadership affords hegemony with the ability to draw its interests with the interest of the wider social-class fractions by changing state formation according to newly established social relations of production. It is this process that requires specific attention, since I argue financialization could be conceptualized as a form of the social relations of production instead of reducing it to an economic technicality. In this respect financialization is a process in which existing historical bloc experience a clash with other class fractions and there is a change in the dominant social relations of production. In this process either the dominant historical bloc sustains its interest and gains active consent of the other class fractions or it simply loses its dominant position and there will be a reconfiguration of the class formation until a new historical bloc is established. Critical point here is the relative autonomy that the State possesses over the dominant class fractions since it is the only way to unify and sustain a hegemonic historical bloc. For Poulantzas, the State in this respect plays a major role not only actively mobilizing the active consent of the dominated but also organizing hegemony of an historical bloc by balancing the clashing interests of different class fractions (Jessop 1985, 56).

Nevertheless, before conceptualizing financialization it is important to understand the concept of state. The next section covers the forms of state in neo-Gramscian framework with specific reference to the state-civil society relations. It is crucial to grasp this relation before conceptualization of financialization, since I argue that the separation of the realm of economics and politics in the declinist theses are rooted in the separation between civil society and state.

3.3 The forms of state

The conceptual framework outlined so far in this chapter explores how social relations of production is crucial in the formation of the historical bloc and how changes in the mode of social relations of production give rise to a new social formation. This class struggle within society leads to the rise of a new historical bloc that shapes the new configuration of the state structure. As discussed earlier, an historical bloc refers more than a class alliance based on economic and political interests. Rather it is the integration of the variety of class interests that are propagated by the ideological hegemony throughout society, "bringing about not only a unison of economic and political aims, but also intellectual and moral unity" (Gramsci 1999, 406). The power of the historical bloc, hence the social hegemony, rests on state power. Importantly, the state is not an entity, a pre-constituted institutional category that creates favourable conditions for the maximum expansion of one particular group, but itself the condensation of a class relation. Rather, it is a historical construction based on the social context of class struggle in a given society that develops all the "national energies" and becomes "the motor force of a universal expansion" (Gramsci 1999, 406). Critically, analysis of class struggle can only be undertaken in relationship with the state (Poulantzas 1975, 25).

In the neo-Gramscian framework, the state is the place where social conflicts take place and where social hegemony can be built by the dominant social classes. This social hegemony is built in the civil society first and later on it transforms the state in order to serve the interest of the newly formed historical bloc and create consent among the other members of the society. The state fulfils this function by different state apparatuses such as army, police, judiciary as well as ideological apparatuses such as education, political parties, information, the cultural so forth and so on. The main role of these state apparatuses is to maintain the unity and cohesion of a social formation and reproduce social relations by materializing political and ideological relations in the state (Poulantzas 1975, 24-5). Hence, the reproduction of social relations of production at large only exists by linking the class struggle in the realm of economy to the state apparatus. This link is formulated by the unity of the state and civil society in the neo-Gramscian conceptualization.

Civil society is the realm of ideology in the broadest sense. It “includes not just the market, the system of production and exchange for the satisfaction of needs, but also classes and corporations concerned with social, religious, professional and recreational life” (Kumar 1993, 379). It is the place where a group of educational, religious, and associational institutions secure the ideological hegemony of a dominant class (Bobbio 1988, 82). These institutions range from clubs to churches, newspapers to trade unions (Morera 1990, 28). They are the places where values and meanings are (re)constructed among society that complements “the rule of a class through its ownership of the means of production” (Kumar 1993, 382-83). Critically, ideology is always class ideology (Poulantzas 1978, 28). These functions of social hegemony and political government are organized by the “dominant group’s deputies”; the intellectuals (Gramsci 1999, 145). It is in the civil society that intellectuals “perform their key function of supplying legitimacy and creating consensus on behalf of the ruling groups” (Kumar 1993, 383). Critically, ideology does not consist merely in a system of ideas, it also involves a series of material practices that work like cement in the totality of social practices (Poulantzas 1978, 28). Gramsci defines the civil society as the place where the ideological hegemony of the ruling class is organized by forming consent within society, and the state is related to the coercive functions of the hegemony.

The State, on the other hand, is formulated in the broadest sense by Gramsci, as: "the State= political society plus civil society" (Gramsci 1999, 532). "These two levels correspond on the one hand to the function of 'hegemony' which the dominant group exercises throughout society and on the other hand to that of 'direct domination' or command exercised through the State and 'juridical' government" (Gramsci 1999, 145). In this formulation, Gramsci is "concerned to emphasize the central role of civil society in the manufacture and maintenance of hegemony" (Kumar 1993, 382). Moreover, Gramsci, the state is not just an institution "limited to the government of the functionaries" or "top political leaders and personalities with direct governmental responsibilities" (Bieler and Morton 2004, 92). Instead, the state is "the entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance but manages to win the active consent of those over whom it rules" (Gramsci 1999, 504). The State maintains the social cohesion by presenting itself as securing the general interest against all particular interests (Jessop 1985, 68). Poulantzas (1975; 1978) argues that the state provides this role by maintaining its relative autonomy against particular interest of class fractions. In addition, the hegemonic class or fraction must undertake to defend overall political interest of the fractions that constitute the historical bloc to sustain social cohesion (Poulantzas 1975, 98).

Finally, Gramsci's writings on the relationship between the state and civil society aims to unravel "how domination of political society and leadership of civil society actually reinforce each other, how the power of coercion and the power to produce consent are intertwined" (Buttigieg 1995, 27). Then, the state should be understood as the successful combination of the apparatus of government functioning within the public realm (political parties, police force, judiciary), and the private sphere of civil society (church, education, media) where hegemony operates (Bieler and Morton 2004, 92). In this conceptualization different social relations of production engender different fractions of social forces (Bieler and Morton 2004, 92).

This means that productive, money, and commodity capital is represented by certain individual class fractions such as industrialists, bankers, and merchants within the state structure. The construction of a historical bloc is subject to the existence of a hegemonic class fraction and is a result of a national phenomenon (Cox 1983, 168). It is only the national context that a historical bloc can be established and expanded internationally. However, as underlined in the literature review, the neo-Gramscian literature lacks a cohesive explanation of the decline of hegemonic powers from a national perspective. In other words, the decline of hegemonic powers in neo-Gramscian studies focuses on the power of hegemony through world order. However, this thesis argues that focusing on the disintegration of the hegemonic historical bloc, financialization and the relationship between the state and hegemonic historical bloc offers a fresh analysis of decline of hegemonic powers.

3.4 Financialization

Financialization is a popular concept in the field of political science, sociology and economics that has often been used to analyse the structural economic changes in the form of a shift from industrial capitalism to financial capitalism. While in some studies financialization has been studied in terms of its economistic and technical implications that aims to explore the relationship between the market and corporations, in other studies it refers to historical, institutional, political, customary and even cultural forces in the mediation between finance and production (Lapavitsas 2011; Palley 2013; van der Zwan 2014). Briefly, as discussed earlier, there were four different financialization conceptualizations in the literature: Marxist, post-Keynesian, world-systems, and the regulation school. Lapavitsas (2011) argues that there are two different conceptualizations of financialization in the Marxist perspective. In Brenner's (2002, 2006) conceptualization, stagnation in the realm of production is a result of the falling rates of the profits theorized by Marx. Brenner argues that falling profit rates can only be reversed by financial expansion which boost demand through exchange rate manipulation and cheap credit

(Lapavitsas 2011, 613). In Sweezy's (1997) conceptualization, financialization is characterized by, first, a slowing down of the economic growth rate, and secondly, an increase in multinational and monopolistic corporations and, finally, financial expansion. Unlike Brenner's conceptualization, economic stagnation is the result of increasing surplus created by monopolies that the realm of production is not able to absorb (Lapavitsas 2011, 612). Post-Keynesians, unlike Marxist approaches, have focused on "the deleterious impact of booming finance on production" (Lapavitsas 2011, 614). Specifically, post-Keynesian analysis is based on the money lending, rentier economy that financialization creates. This approach sought to demonstrate how the rentier economy has a devastating effect on the realm of production by analysing the poor performance in investment, output and growth. To overcome this poor performance, post-Keynesians offer policy intervention to regulate finance (Lapavitsas 2011, 615). The regulation school, on the other hand, has focused on the regulation of the world economy through finance. The structural changes during the 1970s and the internationalization of the production and the disintegration of the Fordist accumulation regime led this school to search for a new regime of regulation, this time including the realm of finance (Lapavitsas 2011, 616).

Finally, financialization in the world-systems perspective places financialization as the centre of its cyclical analysis (Wallerstein 1984; Arrighi 1994). Financialization, in this perspective, could be defined as a "pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production" (Arrighi 1994, cited in Krippner 2005, 173). Within this perspective hegemonic capitalist states follow a cyclical pattern of rise and decline, succeeding one another in the modern era. Especially, Arrighi creates an explicit correlation between the financialization and the decline of hegemony, as financialization in Arrighi represents the autumn of the hegemon. In this conceptualization, both Britain and the USA experienced financialization after they lost their economic pre-eminence in the realm of manufacturing and trade and their hegemonic power had started waning right after financialization of their economy. However, this deterministic understanding of financialization reduces the state to a predetermined singular entity that ignores the role of class contestation. Additionally, the historical analysis of financialization in this framework is far from contingent, as Arrighi fails to demonstrate which state will succeed American hegemony as he first argues that Japan will become new hegemony in his earlier works (Arrighi 1994) but changes his mind in his later works and claims that China will contend for hegemony (Arrighi 2007). Therefore, the precise mechanisms of the financialization that results in the reconfiguration of social forces remain unclear. Financialization is reduced to ahistorical abstraction and "finance becomes the driving force behind its own expansion" (van der Zwan 2014, 106). This thesis argues that financialization as conceptualized in the literature reduces the concept into a technicality which ignores the role of class struggle in the making of financialization as well as its immediate result on social forces as well as to the state structure. Therefore, this research offers a unique conceptualization of financialization drawing on the neo-Gramscian theoretical framework and defines financialization as a form of social relations of production.

3.4.1 Financialization as a form of social relations of production

The main aim of this section is to offer a fresh conceptualization of financialization from a neo-Gramscian framework. The idea that decreasing profitability due to a diminishing return of productive investment has led to financialization is an economically deterministic argument which ignores the role of class struggle, agency of different class fractions and the role of the state in the making of financialization. Furthermore, this conceptualization explores the ways in economic, ideological and political apparatuses have become intermediaries that mobilize financialization across social forces. First, financialization in this research represents a social change in the broadest sense. This social change involves a hegemonic struggle between different class fractions and is the result of the class struggle. As discussed above, the starting point of analysis of the social change that leads to financialization should start with the change in the mode of production. It is the class struggle in the social relations of production that leads to change in the mode of production and the establishment of a successful historical bloc.

Change in the mode of production involves a revolutionary change in the physical production of goods that have immense impact on the division of labour and distribution of the goods that have produced. This change requires surplus capital and labour to be successful. While the surplus capital might be provided by the money capital or raised by the industrial capital as the result of their revolutionary changes in the mode of production, surplus labour is the result of change in the social relations of production at large (including agrarian production), as well as the state apparatuses. This phase includes a fierce class struggle in which working classes resist to the changing social relations of production. However, it is also this phase in which the hegemonic historical bloc is established. It is the consolidation of the interests of the productive and non-productive capital that leads to the creation of a new hegemonic historical bloc. In this establishment phase further investments of the productive class fractions (industrial and agrarian) is supported by the money capital (merchants and banks) by the capitalist credit system as Hilferding (1981) has conceptualized. This is the creation of the financial capital as the hegemonic historical bloc in a given state. Critically, financial capital is not conceptualized as in the literature which aims to accumulate *only* through financial means. Rather, the financial capital in this thesis refers to the amalgamation of the productive and non-productive capital to sustain the physical production through transforming the state structure.

Transformation of the state involves an ideological struggle between the dominant ideology of the previously dominant social relations of production and the ideology that supports emerging mode of production. In this framework, first, the role of intellectuals in spreading the challenging ideology is crucial: they can unite the interests of various class fractions by promoting the newly emerged progressive ideology in the pursuit of the new mode of capitalist accumulation. The critical point here is that intellectuals that lead the ideological struggle are not separate from the historical bloc; rather, they are at the heart of that historical bloc which creates the environment for a consensual leadership. It was in this realm that consensual hegemonic power could be obtained by changing the norms and beliefs of the overall population with the leadership of intellectuals. Secondly, the state plays a crucial role in establishing the ideological hegemony of the newly established hegemonic historical bloc. As Poulantzas (1978 ,61) argues, the state's general function is managing class contradictions and thereby securing social cohesion and ensure the survival of the new dominant mode of production. This role of the state is carried out by the ideological apparatuses of the state, which has the utmost importance as reproduction of social relations of production directly dominates the production (Poulantzas 1975, 28). It is in this phase; dominant ideology of the hegemonic historical bloc institutionalizes in the state structure.

After the change in the dominant ideology, the successful historical bloc institutionalizes its ideas, norms and rules within the state structure. Since this dominant ideology is all about enhancing emerging social relations of production, this process is crucial to understand the characteristics of the hegemonic social forces. In other words, the successful historical bloc that emerged victorious from class struggle with other class fractions institutionalizes its ideological dominance within the state apparatus in order to sustain the material setting that become dominant after the change in the social relations of production. Furthermore, analysing the institutionalization of hegemony within the state from a neo-Gramscian perspective allows us to understand the role of the state and different class fractions in both the rise and decline of hegemony and the ways in which different configurations of class interests are internalized within the state and society. Critically, institutionalization of the hegemonic ideology within the state is directly related to law-making. Therefore, change of laws that has direct impact on the production relations as well as governing of the realm of economy clearly demonstrates whether a historical bloc has been successfully established within the state.

The decline of hegemonic powers involves the same process as the rise. While in the rise of the hegemonic power, this reconfiguration of class forces due to change in the mode of production is closely related to productive forces, this time it is closely linked to the money class fractions. Change in the mode of production leads to a reconfiguration of social relations of production in which productive accumulation regimes are replaced by financial ones. While previously production is the key element of capital accumulation, during the decline phase financial social relations of production become central to capital accumulation. The main reason of this switch is the increasing intra-capitalist struggle due to the diminishing return of further productive investment and decreasing profit rates. When profit returns from existing investments and diminishing returns on further investments decline, components of the historical bloc dismantle and pursue their own class interests. However, it is crucial to understand that this is not a purely economistic process; rather it has roots in class struggle. Financialization leads to the disintegration of the successful historical bloc and an intensified class struggle that leads to a reconfiguration of social relations of production as well as decreasing social cohesion.

This struggle leads to two qualitatively different conceptualization of financialization: outward and inward financialization. This type of financialization generally represents itself in the form of foreign direct investments towards infrastructure, industrial start-up and leasing. Outward financialization occurs when money class fractions move their investments abroad and relocate their capital surplus abroad even it harms all other class fractions and reduces the material power of the state. For example, in the British case, financial class fractions pursued a unilateral free trade policy with the help of the British state. While in the rise phase free trade was in favour of all class fractions as well as the British state, after financialization this policy hindered competitiveness of British productive forces compared to challenging American and German industries and in return resulted in the decline of British power internationally. This thesis argues that if the state loses its relative autonomy over different class fractions and fail to manage competing capitalist interests and ensure the social cohesion between different capitalist class fractions which in turn leads to decline of hegemony of that particular historical bloc as well as the state's power base. Because it is the relative autonomy of the state that transforms the particular interests of different capitalist class fractions into one totality, which is perceived by the general interest of the society at large.

Decline occurs in the material, ideological and institutional realms. After experiencing outward financialization, the existing historical bloc experience decline in these three spheres of activity respectively. In the first realm, the existing mode of production which favours productive forces and yet is also satisfactory for the rest of the society is replaced by financial social relations of production that are profitable for money class fractions and yet create a venue for fierce class struggle. This fierce class struggle underpins the material decline of the existing historical bloc replaced by financial social relations of production. Internationally, if challenging state offers a more productive accumulation regime and attracts capital investments from the hegemonic power, the material decline of the hegemonic power deepens. Due to this decline hegemonic states' trade output in the world trade decreases and challenging currency would become stronger to existing fiat currency. In the realm of ideology, the hegemonic historical bloc starts to lose its ability to create consent among the members of the whole society once the material decline starts. The ideological struggle represents itself as a loss of social cohesion within society and takes the form of fierce class struggle wherein different individual class fractions aim to seize state power in favour of their own interest rather than creating another historical bloc. This struggle reaches its climax when a single class fraction gains the support of the state structure and institutionalizes the state according to its own interests. This institutional adaptation occurs within national boundaries first, in which the governing of national economies switches from the dominant accumulation regime to the challenging regime. Internationally, if challenging states start to adopt their institutional setting according to the challenging accumulation regime it means that the dominant ideology that supports the existing material setting has become weaker against challenges. In this phase, the challenging ideology expands to the world order and institutionalizes the challenging mode of accumulation internationally.

The second type of financialization from a neo-Gramscian perspective is inward financialization, and this type of financialization does not necessarily lead to the decline of hegemony. This type of financialization is led by the state structure. Instead of a class struggle that leads to social change, here the state is more autonomous of class fractions and able to transform social relations of production through financialization and yet able to protect interests of the dominant historical bloc. More importantly, in this type of financialization the state can protect its material power. The unity of interest of different class fractions reflects itself in the realm of ideology. If the financialization process is led successfully by the state structure, it unites various class fractions under its direction and the existing historical bloc successfully adapts to the conditions of financialization without a fierce struggle. Moreover, the impact of this process is similar to the rise of hegemonic powers. Just as in the rise of hegemonic powers, the dominant mode of production is replaced by another and the ideological realm serves as cement to unite the historical bloc for this cause. However, unlike the decline of hegemony ideologically, in this type of financialization the ideological change occurs from an internal necessity, rather than a challenge from other powerful states. Therefore, this type of financialization represents not a rupture but the continuity of the existing historical bloc under a new accumulation regime that is supported by new norms and institutions. Moreover, instead of struggling against outside challenges, this accumulation regime expands outward on a world scale by institutionalizing itself in other countries. Finally, the first difference from the inward financialization is that unlike outward financialization, capital investments targeting different countries do not undermine the industrial base of the hegemonic country. Secondly, during inward financial there is a massive influx of capital from other advanced economies to the hegemonic state in the form of buying treasury bonds, corporate acquisition and hegemonic currency.

3.5 Conclusion

The conceptual framework outlined so far, considers how new configurations of social forces are related to the social relations of production. Neo-Gramscian theory of hegemony allows us to move beyond the economistic fallacies of the existing declinist theses, which regard ideas as only reflections of the material structure. Gramsci rejects the separation between the base and superstructure, as he defines hegemony as the dialectical relation between these two spheres. The dialectical interaction between the base and superstructure, between the realm of the economy and political, represents itself as the relations between social forces in a society (Lefebvre 2009, 60). It is these relations that state power rests. Unlike the declinist approaches, the state in the neo-Gramscian framework is not a predetermined unit, but on the contrarily it is the class struggle that defines the forms of state. Furthermore, "the historical unity of the ruling classes is realized in the State, and their history is essentially the history of States and groups of States" (Gramsci 1999, 202). The state in this perspective is not just an institution that is "limited to the government of the functionaries" or "top political leaders and personalities with direct governmental responsibilities" (Bieler and Morton 2004, 92). Instead, the State is "the entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance but manages to win the active consent of those over whom it rules" (Gramsci 1999, 504). Understanding the social change that occurred during and after the financialization in Britain the USA requires specific conceptual framework that focuses on state and civil society relations as well as the internal class struggle within the historical bloc.

In the theorization of the conditions of the consolidation, formation, and transformation of the social forces, this work adds a transformative period in which finance becomes independent from the productive forces that it is derived from and becomes a power over production relations. Following the economic recessions of Britain (1873) and the USA (1973), a new institutional, ideological, and economic framework had been established which was underpinned by class struggle between different class fractions. However, two financialization periods differed in two important respects. First, financialization in Britain was led by the dominant class that resulted in an outward movement of capital from Britain to other countries, which in return hampered not only the British economic position in the world but also the ideological tenets that enhanced and preserved British hegemony. On the other hand, the financialization process in the case of the USA was a state governed process led by American policymakers and international institutions that resulted in an inward capital movement from the core capitalist countries to the USA, which in return preserved and enhanced the economic power of the United States. Moreover, in the US case the transnational capitalist class transformed and expanded the ideological tenets of capitalism to the third world by co-opting the national bourgeoise of those states. In other words, financialization is a qualitatively different process that represents the reconfiguration of social forces in each case, which requires a specific historical inquiry.

Building upon the conceptual framework that has been discussed in detail in this chapter, the next chapter will now develop an empirical account of the rise of British hegemony. It is crucial to understand the social change behind the British rise, since once the reasons of the social change are understood properly, it is possible to unravel the true nature of British financialization and decline. The very developments that promoted British hegemony to a position of world hegemony led to financialization and it is important to understand these developments to conceptualize British financialization. The dominant mode of production that had expanded after the Industrial Revolution led to the financialization of the British economy. Materially, diminishing returns of trade due to ever-increasing industrial competition over the investment of capital and foreign capital investments caused British financialization. As discussed briefly, this research argues one of the reasons behind British decline after financialization is that the nature of financialization in the British case is an outward expansion in which British capital investments abroad resulted in a decline in the productive base. Moreover, the class struggle for more power and control over accumulation resulted in a rupture of the British historical bloc. While capital class fractions pursued foreign investment as the dominant capital accumulation and supported the continuation of free trade imperialism, productive forces urged for protectionist measures against increasing industrial competition. By using a neo-Gramscian conceptual framework, this research will be able to clarify the underlying social contestation between various class fractions and the role of the

British state in the making of outward capital expansion. In order to achieve this end, next chapter will first focus on the dynamics behind Britain's rising hegemony during 1800s in the next chapter.

Chapter Four: Rise of Cosmopolitan Free-Trade Historical Bloc

The previous chapter outlined the conceptual framework of this thesis and explained how configurations of social forces are related to the changes in the social relations of production. The starting point of an empirical inquiry in this perspective is to understand change in the social relations of production, since it highlights how historical bloc is formed. The main aim of this chapter is to provide a neo-Gramscian account of the rise of cosmopolitan free trade historical bloc and the economic, ideological and political tenets of the British hegemony. As discussed previously, the most-important neo-Gramscian accounts do not have a mutual agreement on the establishment of the British hegemony. While Cox (1987, 143) dates consolidation and institutionalization of the historical bloc between 1840 and 1870, Overbeek (1990, 45) claims that old historical bloc that was established after Glorious Revolution was still ruling in the nineteenth century.

Moreover, these two influential neo-Gramscian accounts have different outlooks on the characteristics of the free trade historical bloc. Overbeek (2000, 176) argues that social hegemony in England during nineteenth century was achieved by "the financial and commercial aristocracy in Britain". Cox (1987, 123-148), on the other hand, argues it was the aristocratic governing class that managed to appease the working class and allow bourgeoise hegemony to flourish and expand. These different views on the rise of the free trade historical bloc stems from their methodological approaches. While Cox (1987, 32) offers twelve different modes of social relations of production that are unique to each case Cox analysed, Overbeek and van der Pijl (1993, 3-5) offer a more coherent method on the basis of a combination of ideal-typical positions of different class fractions depending on their capitalist interests. Hence, "we are confronted with two mutually exclusive accounts that employ the same basic concepts for very different results" (Lacher and Germann

2012, 107). Therefore, it is important to clarify the how this research differentiates from other neo-Gramscian works.

First, even though the reconfiguration of the class formation started way earlier than the nineteenth century, I agree with Cox's dating of the consolidation and institutionalization of the free trade historical bloc. It was the final stage of a long period dating after the Glorious Revolution. Since the aim of this thesis is to understand the financialization period following the 1870s, focusing more on the period of institutionalization and consolidation of the free trade historical bloc would allow this chapter to discuss more on the relationship between different class fractions within the historical bloc as well as their relationship with the state. Secondly, this chapter promotes a class-based analysis of the social change following a neo-Gramscian route. Class in this respect "denotes the aspect of agency producing and reproducing the structures of a society based on exploitation" (van der Pijl 1998, 31). In this perspective, the aim of each class fraction is to "make their particular interests appear as general interest" (Overbeek and van der Pijl 1993, 3), both at the level of state and society. "Class fraction" is an abstract term and could be defined in different ways. In this thesis, it connotes to the monetary and productive class fractions based on their interests and positioning during class struggle.

The class struggle could be traced within different spheres, such as original accumulation, the exploitation of labour power, and social reproduction (van der Pijl 1998, 36). Original accumulation refers to the process in which capital itself become an independent force by imposing the commodity form on social relations including productive relations (van der Pijl 1998, 36). The enclosure movement in England that had intensified after the 1750s was a clear example of the commodification of the mercantilist social relations of production that resulted in a massive release of agricultural labour. This release with the widespread adaptation of factories represents the second sphere: the capitalist production process. This is the most important phase to understand the social change as the social change do not stem only from the "economics of the profit-making process", but from "the developments of the labour process evolving under the impact of the profit-making process" (Sohn-

Rethel 1976, 27). Capitalist reproduction phase follows social reproduction. This does not mean the exploitation is over; rather, it means instead of waging all-out war against their exploitation, workers in this phase seek to improve their bargaining position over working conditions and wages. In other words, it is the reproduction of social relations of production in ways that the labour force internalizes the rules of the mode of production and discipline. Finally, after these three phases class struggle leads toward a transformation of the state which takes a political form and becomes a matter of the inclusion and exclusion of class fractions' access to political decision-making. This final process involves the institutionalization of the rules and norms of the established historical bloc within the state structure and gives a legal-institutional framework for the development of production relations (Cox 1987, 148-149). This method of analysis of social change would allow this thesis to move beyond the deterministic understanding of social change as it links ideological aspects to the structural underpinnings of the social order.

This chapter provides an analysis of social change through three different but interrelated spheres of activity. In the economic realm, this chapter starts analysing the change in the social relations of production through the change in the existing mode of production. In this respect, change in the mode of production is analysed through economic determinants such as change in the agricultural and industrial supply and demand, change in the real wages and labour productivity as well as monetary fluctuations within the British economy and how these factors have an impact on the structural shift in the economy. Secondly, this chapter analyses the change in the ideological setting in Britain since change in the mode of production is always supported with an ideological struggle. This part of the chapter provides arguments of the influential intellectuals and how their ideas entrenched free trade social relations of production. Finally, institutionalization of the cosmopolitan free trade historical bloc is analysed in this chapter. The third section focuses on the institutional realm by analysing the change in the laws, regulations and institutions that govern production, trade and finance.

4.1 Economic Change

Linking population change to economic change has been very popular since Malthus' analysis of the pattern of population rise and how it determines and is determined by economic growth. What Malthus argues in essence is "population is food controlled" (Artzrouni and Komlos 1985, 23). Moreover, ""population growth ceased to prevent long-run growth in per capita income" (Kögel and Prskawetz 2001, 338). In other words, economic growth is bound with the food production since the most fundamental input of the production had been the human labour until the Industrial Revolution. Within this perspective demographic change became an overarching master concept for the formulation of economic change within which "long-term movements in prices, in income distribution, in investment, in real wages, and in migration are dominated by changes in the growth of population" (Habakkuk 1958, 487). Until the British case, this pattern revealed itself as "a period of 'crisis' in which incomes decline, state authority is often contested or fails, trade declines" (Goldstone 2002, 325). However, this formulation of economic change falls for economic determinism and implicitly or explicitly denies the role of class structure and struggle in economic change (Brenner 1976, 30). Hence, long-term economic changes accompanied by economic growth cannot be analysed adequately unless the class relationships have first been specified (Brenner 1976, 31-32).

Indeed, demographic change is not independent from the change in the social relations of production, rather; there is a reciprocal relationship between social relations of production and population change. The theme of increasing population and labour release without concern for the working of legal and social institutions or relations of class to class would not be enough to understand the big picture (Hilton 1987, 3). The rise of British hegemony should not be reduced to a single factor as it was an amalgamation of the economic and political realms. Yet, reducing the whole process of the hegemonic struggle between different class fractions to the rise of the division of labour which was based on the commercial expansion apart from any transition through class conflict and the form of its economic development would not help us to understand the total reality (Brenner 1977, 82). Hence, instead of sacrificing economics for the political or vice versa, aim of this chapter is to focus both specifically with respect to their impact on the class relations. Understanding class struggle and exploitation is key to underline the role of different class fractions in financialization.

This chapter uses Brenner thesis to understand the class struggle that had accompanied the economic change in the Britain, which had resulted in the rise of free trade historical bloc. Briefly, what Brenner had done was to assemble Marx's emphasis on changing relations of production under the conceptualization of social property relations. While this perspective has been criticized for being too narrow to explain the emergence of capitalism, reducing them to the one historical moment – the freeing of labour – (Anievas and Nişancıoğlu 2015, 24), Brenner argues that his conceptualization works only in connection with specific, historically developed systems of social-property relations and given balances of class forces (Brenner 1982, 16). Furthermore, Brenner claims that under different social property relations and different balances of power, demographic and economic trends might present different outcomes (1982, 16). Hence, Brenner's thesis could be construed not as universal conceptualization of the emergence of capitalism in the world, but conceptualization of class relations in Britain starting from change in agricultural property relations.

In line with Brenner's argument, the aim of this chapter is not to add a new outlook to the discussion of 'emergence of capitalism', rather it aims to find a ground to analyse the change in the social relations of production. Moreover, starting from agricultural change adds an extra empirical dimension to the neo-Gramscian literature. While historians generally treated agriculture as the passive partner of industrial development (Berg 1994, 65), this research is keen to point out how change in the agricultural production relations started a chain reaction that resulted a change in the social relations of production overall in Britain as Mathias (2001, 13) argues "agricultural development proved a crucial enabling-condition for industrialization". This symbiotic relationship between agricultural change and industrial change underlines the hegemonic struggle of different class fractions.

4.1.1 Agrarian change

Prior to the agrarian revolution, it was the "feudal social-property system" that established limited methods to develop production in agriculture (Brenner 1982, 17). Commercial farming was relatively limited since the medium and small size towns were able to sustain their own food requirements (Clay 1984a, 1-56). On the other side of the coin, peasants, who formed the basic economic unit of the agricultural society, were barely using sound money, as they were able to sustain their own clothing, fuels, meat and dairy products. Furthermore, peasants were not required to offer their labour-power as a market commodity (Wood 1998, 18). In a way peasantry was in control of its own labour because of the independence of the market forces and producing their own subsistence (Kriedte 1983, 2). However, they were at the bottom of the economic hierarchy, and above them were landlords who were given rent payments in cash or labour; the church, given a tithe; and the state, the source of taxation (Partiquin 2004, 201). The landlords who held a higher ground on the economic hierarchy extracted the surplus labour from peasants directly with the help of their extra economic powers over peasants. Therefore, neither the peasant who produced, nor the landlords who appropriated what others produced, depended directly on the market conditions for their self-production (Wood 1998, 18). The social reproduction of the original accumulation depended not on the market but in the means of "direct coercion exercised by landlords based on their privileged access to the military, judicial and political power of the state" (Wood 2002, 95).

Furthermore, this reproduction by the lords through surplus extraction and by peasants through production of their own subsistence prevented any widespread tendencies to go through specialization of productive units, systematic re-investment of surpluses, or through regular technological innovation (Brenner 1982, 17). Extra-economic surplus extraction had prevented small demesne owners from investing in the land and enhancing the fertility of their soil or improving its quality with improved drainage systems (Clay 1984a, 63). Moreover, the peasantry had no interest in investing the land, as they were unable to face the risk of introducing new factors of production since introducing new factors of production would mean not only breaking from long established routines, but also coping with the possible problems presented by the risks and uncertainties of the new factor of production (Schultz 1964, 33). This is due to the fact that these new methods could be of critical importance since “an error which is disastrous to the business tends to be disastrous to the participating family as well” (Mellor 1966, 134). In other words, there was no competitive urge for the peasants to produce more, all they needed was the ensure their social reproduction.

Another important factor that has shaped the economic organization of peasant society was the interdependence of different small demesne holders. Interdependence of peasants in a village institutionalized a system that further operationalized peasantry mode of production in the agricultural production. In this system, the rights of the community superseded the rights of individuals. The main aim of the communal control was to create a mechanism “for making the fullest possible use of the land available” to ensure that all members of the peasant society got a share of the scarce resources to sustain their living (Clay 1984a, 65). This communal control was best characterized by the open fields system in which the land was cultivated by multiple farmers in which the land was not owned by any individual (Mokyr 2009). The main purpose of the open field village organization was social rather than economic; therefore, maximization of economic efficiency came second after communal regulation of peasant society to sustain order in rural areas. However, enclosures movement in the Britain changed the social formation in the agrarian class fractions and led to more structural economic change in the Britain that had dire impact on the rise of the British hegemony.

Enclosure is often understood as simply as the privatization and fencing of formerly open fields, yet it was “the extinction of common and customary use-rights on which many people depended for their livelihood” (Wood 1998, 24). In this first phase of the enclosures, the practice was to some degree resisted by the state to sustain public order, yet the second phase of the enclosures witnessed no further state interference (Wood 2002, 109). Yet, the abolition of the Star Chamber after the

Glorious Revolution removed the final barrier against the enclosure movements led by landed aristocracy and the yeomanry who were the main forces opposing the King during the Civil War (Moore and Rhodes 1973, 14-19). It has been said of the Parliamentary enclosures that “nothing more neatly testifies to the triumph of agrarian capitalism” (Wood 1998, 19) It marked the success of the landed classes that had led by the aristocracy against the peasantry and a switch in the policy-making of the British state.

The main consequence of parliamentary enclosure was the consolidation of some 1.8 million hectares of scattered common field strips into compact blocks of land (Grigg 1980, 172). By 1851, the average farm size in England was 115 acres and the arable acreage is estimated to have been about 70 per cent greater in 1850 than it had been in 1700 (Shaw-Taylor 2012, 43). Starting from the middle eighteenth century the open fields were enclosed and landlords were able to enclose and consolidate more and more land and create larger farms to lease them to capitalist tenants and increase their rent incomes due to increasing rents because of the abolishment of previous lease arrangements with the peasant farmers. In addition, the value of land was increased by the direct increase in its productivity and by the indirect increase from the fixed capital employed on the land (McCloskey 1972, 32). A rough average on rents is a doubling of rents per acre after enclosure (McCloskey 1972, 33). Capitalist tenants were able to pay the increasing rents as they were able to “take a reasonable share of increasing surplus of the production” because of their investments and their ability to increase productivity of the land (Campbell and Overton 1993, 4). Moreover, large farms allowed capitalist farmers to employ labour-saving techniques and allowed them to have a better bargaining powers with merchants and banks in financing and let farmer to specialise in managing agriculture (Grigg 1980, 171). While landlords prospered from agricultural productivity as they raised rent income, labourers were wretched (Allen 1992, 7). One of the key reasons for this situation was the labour release from the agriculture as the demand for agricultural labour reduced with the enclosure.

The share of the labour force in agriculture was between 60 and 80 per cent in 1701, 36 per cent in 1801, and 22 per cent in 1841 (Deane and Cole 1969, 137-142). Since large-scale farming reduced the labour demand in agriculture, it caused low wages and unemployment for the majority of the population (Allen 1992, 8). With the increasing number of enclosures and the concentration of the land in the hand of landlords, it was inevitable that the number of landless increased between 1751 and 1851 (Grigg 1980, 172). Much of these population moved out of agriculture employment ended up in industrial pursuits (Campbell and Overton 1993, 66). The movement of population had taken "an upward turn in village and town like" (Chambers 1953, 338). This movement from rural to urban was by no means a voluntary and peaceful one. This expropriation and expulsion of the agricultural population supplied the town industries with a mass of proletarians (Marx 1867, 817). Matthias (1983, 55-56) argues that breaking up the peasantry was the price England paid to feed the growing population, since enclosing open fields and consolidating smaller plots established the basis of improvement in agriculture as well as the growth in the demand for agricultural goods due to the population increase which was much faster after 1760 than before. Allen (1992, 2), on the other hand, argues that enclosures and the increase in farm sizes extended markets and spread commercial attitudes. The change in property relations and the agrarian organization in England made production "more flexible and far more responsive to the market then a peasant system could have been" (Jones 1967, 17). Economic growth in England in this period was closely related to the "buoyant home market" (John 1965, 24). Unlike the peasantry, which was largely independent from market forces, wage labourers were dependent on the market as well as the capitalist tenants and landowners whose demand increased due to increased agricultural productivity.

Increasing dependence on the market forces were decisive in the development of agrarian capitalism. As in this new emerging system "the organizers of production and the direct producers were separated from direct, non-market access to their means of production or subsistence"; they had no choice other than buying or selling in the market (Brenner 1982, 17). The relationships between producers and appropriators were mediated by the market and both labour and capital were dependent on the market for their own reproduction (Wood 1998, 16). Small demesne holders who enjoyed customary security of their land use were still obliged to sell their produce in the same markets as the commercial farmers who set the competitive standards of productivity (Wood 2002, 103). So as the market forces further established themselves in the economy, their competitive pressures forced less productive farmers, who were producing at subsistence level, to sell their properties and move to urban areas to join the labour market. However, by no means was this a natural process as the market forces were assisted by direct coercive intervention to evict peasants and abolish their rights of land use (Wood 2002, 103). This market dependence on both capital and the labour gave the market an unprecedent role as not only a mechanism of exchange but as the principal regulator of social reproduction (Wood 1998, 16). This meant producers were compelled to produce competitively by attempting to specialize, accumulate and innovate to the greatest extent possible (Brenner 1982, 18).

It was the emergence of this "landlord-capitalist tenant-wage labour structure which made possible the transformation of agricultural production" (Campbell and Overton 1993, 63). British agriculture became "the most productive in the world" (Allen 1992, 1). This growth was dependent upon a two-sided development of class relations: "the breakdown of systems of lordly surplus extraction by means of extra-economic compulsion" and "the undermining of peasant possession or the aborting of any trend towards full peasant ownership of land" (Brenner 1982, 17). The consequence of this development created a necessity and possibility for both the organizers of production and the direct producers to reproduce themselves through a course of economic activity that allowed the continuation of the further development of the productive forces (Brenner 1982, 17). "The agrarian landscape was dominated by a tripartite social structure in which most of the land was owned by large landowners, rented to large-scale tenant capitalist farmers, and worked by agricultural proletarians" (Shaw-Taylor 2012, 26). The rise of the landlord/capitalist tenant/wage labourer triad provided the basis for the transformation of agriculture that created a highly increased productivity to sustain increasing population not engaged in agricultural production, and an increasing landless mass that constituted both a large wage-labour force and a domestic market for cheap consumer goods (Wood 2002, 103). Finally, while previously agriculture was the anchor of the societal balance and agricultural production which was heavily regulated and protected by the government from foreign competition to sustain reconciliation of different class fractions and agricultural institutions promoted equity over productivity, now it had changed to the arena of the fierce competition to extract more and more surplus from the land at the expense of peasant and wage-labourer.

4.1.2 Industrial Change

The Industrial Revolution marked a significant turning point in the history of mankind. Although there had been periods of industrial prosperity in Italian city-states and the Netherlands, it was the Industrial Revolution that "initiated a cumulative, self-sustaining advance in technology whose economic repercussions would be felt in all aspects of life" (Landes 1969, 3). It was not only technological advances such as

> the substitution of machines for human skill and strength, the development of inanimate sources of power (fossil fuels and the steam engine), the invention, production, and use of new materials, and the introduction and spread of a new mode of production: [the] factory system(Mokyr 1989a, 132).

It is more than a transition of labour from rural and agricultural occupations to urban and industrial occupations and the creation of an industrious labour force; rather, it is the transformation of the entire labour force in Britain (Mokyr 1989a, 89). While the rise of agrarian capitalism transferred land from a peasant society to the landlords and capitalist tenants, the industrial change witnessed a transformation of the existing social structure in Britain in which wealth and power transferred from the feudal, agrarian class structure to the emerging industrialists and monetary class fractions.

The Industrial Revolution illustrates “the limitations of the compartmentalization of historical sciences” (Mokyr 1989b, 6). Often, there is a separation of the economy on the one side and urbanisation, class formation, government politics, the arts and religion on the other, which implies that these were “effects of the industrial revolution and not integral parts of it” (Hudson 1992, 5). This thesis argues that the separation of the political and economic downsizes industrial change only to certain macro-economic datasets that ignore the role of different class fractions in the making of hegemonic struggle. Industrial change involves more than growth of national income, increase in capital formation, or the wage and price movements. It also encompasses the change in the organization of production, division of labour, consumer behaviours, marketing, and distribution of the production. This part of the chapter discusses the industrial change that led to the change in the industrial mode of production.

The capital involved during the mercantilist period in many industries could be regarded as circulating capital, which generally was used to purchase raw materials and for the payment of wages. Critically, even some branches of industrial production required expensive equipment or building, but the scale of investment was modest, and the number of labourer and volume of industrial output was low (Clay 1984b, 8). Fixed investments were not a prerequisite for the success of an industrial enterprise (Mendels 1972, 243). Moreover, the wage-labour required for industrial production was low, unlike agricultural production which required many people working in the same field during harvesting seasons (Clay 1984b, 8). Finally, the division of labour in the mercantilist era was in favour of agricultural production. The labour force of the rural industry consisted of people who were partially employed in agriculture whose services were required in agriculture during harvest season set by weather conditions. This situation created a “growing dispersion between the management and workers” (Landes 1962, 57). According to Mendels (1972, 243), this dispersion in addition to the high wages led to a search for technological innovation that "diminishe[d] the power of the worker in the production process".

In most sectors of industry, craftsmen worked as the backbone of the workplace. The main asset of the craftsmen was their high degree of skill which required years of training as an apprentice. Apprenticeships were contracts in which the master agreed to teach the apprentice the trade and house and feed the apprentice during the contract (Allen 2009, 54-55). An important downside of the apprenticeship custom was the fact that families were required to find a large sum of capital for their child's expenses as an apprentice, and, after finishing the apprenticeship, the apprentice had to raise the capital to start a business to become a master (Allen 2009, 55). Moreover, often those craftsmen used their family members working in their household as their workforce, just like farmers in the peasant farms (Clay 1984b, 8-9). However, if and when the demand for manufactured goods increased, additional labour was needed to increase output since the nature of this mode of production was labour intensive rather than capital intensive. In other words, just like agricultural production, increase in industrial output was achieved through increasing the unit of production. The critical point here is, many of the new workforces would be from the poor stratum of the society, who neither had landed for agricultural production nor could afford to commence their own business. Hence, the increase in the labour force in the industry was uneven in terms of representing productive forces.

Moreover, guilds had a crucial role in the division of labour in manufacturing as they were the regulators of their individual industry. Guilds often deliberately placed obstacles for those who wanted to commence a business of their own, such as a high entrance fee, controlling the competition of price and quality, or opposing the introduction of new production techniques or products (Clay 1984b, 10; Kriedte 1981, 22). Furthermore, guilds held a special position in the regulation of manufacturing, as they were responsible to exercise the legislation concerning wage-fixing. Moreover, guilds enhanced their influence over the control of the organization of the industry, since there was almost no state control of the production process.

However, guild influence could not be extended beyond the cities (Heckscher 1993, 243). Hence, rich merchants were safe from the regulations of the guilds and managed to control industrial production in rural Britain. The regulating role of the guilds over the industrial division of labour was further extended by state legislation, as the fundamental aim of the state was to "maintain the population first on the land, secondly in other simpler crafts and to restrict entry into higher occupations" (Heckscher 1993, 229).

The agricultural changes had important effects on society at large, especially concerning the industrial production. The rising productivity in agricultural production and the self-sustaining nature of agricultural production allowed for further population increase whereas prior to agricultural change the gains from population increase were consumed by the rising population and economic growth was hindered. Rising and declining prices and demand for the industrial goods were closely related to the situation in agriculture. Moreover, when the agricultural prices rose it also forced up the wages of industrial workers as their main consumption – the cost of subsistence – roses. With the changing mode of production in agriculture yeoman farmers and capitalist farmers as well as the landlords who prospered from the increasing agricultural productivity as well as agricultural prices at the end of the seventeenth century have offered "a significant outlet for industrial goods" (Campbell and Overton 1993, 67).

Secondly, the labour release from agriculture was an important component of the industrial change. In the early stages of the industrial change, the unmet demand for labour in the industrializing towns was met by the extra hours worked by women and children (More 2002, 54). When their labour was not enough to meet the extra demand, they started to benefit from the labour released from agricultural production. Critically, there were both "lack of employment opportunities" and "a labour shortage" at the beginning of the eighteenth century, which might show the incompatibility of the emerging factory system and the putting out system (Pollard 1965, 196). Cheap labour by no means provided advantages in the early stages of the Industrial Revolution in terms of productivity. It was no advantage "unless it could be effectively transplanted from the traditional to the modern sector" (Mokyr 1989a, 87). The effect of the technological change on the industrial change was moderate at the beginning as the widespread implementation of the new technology takes time. As the machinery became widely used for industrial production it required a large-scale centralised workplace shaped around machinery that could best be efficient by extracting more work effort from the labour who were concentrated under the eye of the employer or an overseer (More 2002, 53-54).

However, concentrating large numbers of labourers in one place and subjecting them to discipline was not easy to implement for the early industrialists (Thompson 1967, 82-87). The transformation from the putting out system to the factory system was the most important event that underpinned industrial change. The size of the productive unit grew with the increasing industrial demand. However, the critical point here is that the putting out system was not replaced by the factory system overnight. As the factory system progressed into the dominant mode of production and establishes itself as the stronghold for the rising historical bloc, government helped industrialists to take control of the production process. A series of acts passed between 1777 and 1790 and allowed employers to enter the workers' premises to inspect the production process (Mokyr 1989a, 105). At the end of the eighteenth century "there was not much left of the independence of the small master, except the choice of hours" (Unwin 1924, 35).

Organization of the new forms of industrial production was more than having a larger work unit and enforcing discipline on labour. This transformative process created a system of production based on strict polarization in the productive process. In this system the employer supplied the capital equipment and controled its use unlike previous production system, and the worker was "no longer capable of owning and furnishing the means of production" and reduced to pure labourer (Landes 1969, 2). It was the discipline and wage-nexus that tied these two different class fractions in the industrial production. Before agrarian change workers had to work as seasonal workers during harvest time and their input in the industrial production was torn between their homes and agriculture. Since this system was ineffective and uneconomical in terms of not maximizing the profits of the industrialists who invested a large fixed capital towards the machinery, the worker "wholly submitted to the requirements of the employers" (Mokyr 1989a, 90), or the factory owners would hire some other worker from the massive labour pool that agricultural change created.

The end of the putting out system meant the disintegration of the workplace and household. While before the worker could freely opt for the leisure time rather than rigid work schedules, households also became specialized units for consumption only (Mokyr 1989a, 103). Fixed capital investments preceded the transition to the factory system "at a much faster pace where it was combined with rapid power-using technological innovation" (Berg 1994, 207). This was because these new technologies changed "the optimal scale of the producing unit and introduced increasing returns where once there were constant returns" (Mokyr 1989a, 104). Discipline, on the other hand, was directly related to the factory system as it "created a new breed of worker, broken to inexorable demands of the clock" (Landes 1969, 2). In the 1820s and 1830s the impact of the rapid shift in the division of labour started to take effect as the machinery replaced human labour in industry and agriculture. The main effect, which is crucial for this thesis is the fact that the labour both in agriculture and industry lost their rights of the ownership of the means of production. For example, the number of hand-loom weavers fell from around 250,000 in 1820 to 40,000 in 1850 (More 2002, 53). While previously the working class in agriculture and industry had different characteristics, with the agricultural and industrial change the working class in Britain transformed into wage-labour. The struggle against the changing nature of production was not uncontested. At the first stage of the industrial change there was simple resistance, such as damaging the machinery (Pollard 1965). With the widespread implementation of the new time discipline in the factory, workers formed short-time committees and struggled to decrease working hours from 12 to 10 hours a day (Thompson 1967, 86). Yet, by the 1830s and 1840s workers internalized factory discipline as the English industrial worker was marked off from the Irish worker, not by a greater capacity of hard work, but by his regularity (Thompson 1967, 91).

4.1.3 Monetary Change

Money class fractions had a huge impact on both agricultural and industrial production as investors, creditors and salesmen. Their tripartite position towards the British economy put money class fractions into a critical position in the development of the capitalism in England. Critically, there was no clear distinction of financial and trade class fractions in this era as, “the lines between wealthy nobility, gentry, and the upper reaches of business and the professions were blurred and wavering” (Moore and Rhodes 1973, 36). The most important actor of the money class fractions in the mercantilist era was the merchants. They were specialized in management and financing in trade, yet able to expand their specialization as employers in the production sphere. As discussed earlier in terms of the productive forces, they were both investors and employers of agricultural and industrial production and traded those commodities in both foreign markets and in Britain. During the Mercantilist era there was no single market where merchants could profit from selling commodities. Rather the production of goods was for immediate use and it was quite localized. However, the social change that occurred in Britain was concerned not only with the change in mode of production but also the formation of a single national market. Hence, it is important to understand the role of money class fractions in the making of this national market and social change.

According to Gregory King’s estimation, merchants and tradesmen by the sea were only 1 per cent of the whole population and yet held 5% of total income prior to Industrial Revolution (Cippola 1993, 8). The small merchants traditionally operated under the conditions of a divided market and protected from outside competition because of the fragmented market, high transaction costs and explicit government protection (Mokyr and Nye 2007, 53-54). These merchants who were interested in the trade of miscellaneous manufactures, from cutlery and cooking tools to exotic goods that were imported overseas, but their main stock was textile fabrics, and were generally focused on retail trade of those goods (Clay 1984b, 177). Raw wool or woollen cloth was the backbone of the trade of England for most of the pre-industrial period until the Atlantic trade had opened (Deane and Deane 1979, 54-55). The commodity composition of English foreign trade at the eve of the industrialization consisted of a whopping 47.5 per cent woollen manufacture (Cippola 1993, 205). Wholesale merchants, on the other hand, purchased the goods at their source of supply in great quantity, transported them back to their base of operations and sold them in smaller lots to the retail merchants. They were the richest and most influential men in their communities and many of them who operated outside London were engaged in the retail trade as well (Clay 1985b, 179).

Specialization had not been achieved and a "merchant was very often the head of manufacturing enterprise, a money lender, and a trader, all of the same time" (Cippola 1993, 41). As discussed earlier, the early part of the mercantilist period saw the dominance of the "putting out" system under the control of merchants, especially in textile manufacture. Under this system merchants let out the raw material and necessary tools to the workers who worked in their own homes, and later merchants collected the finished product to sell in the local market or at long distance (Cippola 1993, 46). Their fixed capital in this process involved only basic tools that could be reused several times. Hence, the capital of the merchant during this time period was mainly circulating capital. Finally, in this production method work was done to order, unlike the more complex production methods in which the production was "for the market" (Cippola 1993, 73). However, as Charles Tilly (1992, 55) aptly argues, this system put serious limits on the concentration of capital, which hindered further investment.

Finance during the mercantilist era was dominated by the state and limited the role of merchants as financial mediators. The state in this sense was "the ultimate arbiter that controls as the maker and receiver of payment" (Ingham 2004, 122). The state control of money account through taxation and metal standards were so strong that stability or instability of the monetary issues were depended on the competence of the sovereign. For example, while Henry VIII of England devalued the metal standards of precious metals and resulted in a greater economic instability, his successor Elizabeth provided great monetary stability that had fostered trade. On the other hand, another struggle between the state and merchants spurred from the private credit networks and bills of exchange that merchants established for their wholesale transactions. The state considered this "to be a breach of their monetary sovereignty" (Ingham 2004, 78). Bills of exchanges were used for long-trade transactions by the merchants, and contrary to the private credits, bills of exchanges were subject to the law (Carruthers 1996, 128-129). Bills of exchange were important since it was not safe to transfer sound money from one town to another, and wholesale merchants who transported their goods from bigger towns to smaller ones also collected the remitting funds of the landed gentry in small towns to other traders in bigger towns. They were able to do this because "balances due between traders resident in different places were settled by means of inland bills of exchange" (Clay 1984b, 183). Widespread usage of the bill of exchange undermined state control on monetary issues (Ingham 2004, 123), and yet the effects of the bills were restricted by the law of merchants. The law of merchants limited the usage of the bills as assets, since "a third party in a possession of a bill of exchange … was in a weak legal position since persons who were not the original parties to a contract were not entitled to demand the performance of any duties specified by the contract" (Carruthers 1996, 129). This situation postponed the emergence of the capital market until the eighteenth century.

Throughout the seventeenth- and eighteenth-century Britain experienced major changes not only in the productive sphere but also in the fiscal realm. Economic stability was achieved only after the establishment of the Bank of England in 1694 (Ingham 2016). This event is so crucial in the hegemonic struggle between different class fractions. As Pixley (2013, 273) argues, it marks "the beginning of a memorable alliance" where the state would leave the monetary issues to the merchants. Extension of British military power in the form of a powerful navy allowed the British state to dominate world trade and protect interests of the British merchants all over the world. Reorganization of the British state revolved around a new fiscal apparatus, heavy taxation, military apparatus and increasing role of the bureaucracy (Hudson

1992, 52). Interestingly, while the role of the British state as regulator of the economic activities prior to the rise of the free trade historical bloc diminished, it emerged as "the largest single actor in the economy with state expenditure rising well above the level of domestic capital formation" (Hudson 1992, 52). This rising government expenditure became a critical turning point in explaining hegemonic struggle between different monetary class fractions.

As discussed earlier, the Crown used to dominate the realm of the economy during mercantilist era, not just in the productive sphere but also in trade and finance. However, from the 1660s onward the power of the Crown had waned while Parliament started to gain some ground, especially on its control of the public finances. These developments created tension between Charles II and Parliament, as Charles was eager to finance two expensive wars with France. While Parliament had the control of the government income and used its control as a leverage over Charles II, Charles was eager to reduce his financial dependency on Parliament by borrowing increasing sums of money from private entities, since tax revenues could not be expanded as quickly as borrowing and the urgency of the warfare meant that borrowing was the fastest way to fund and deploy more military resources (Tilly 1990, 87-91). Borrowing big sums of money increased the debt of the Crown, but at the end it was this increasing debt that shaped state finances as well as increased the role of financial class fractions in state matters. After Charles II's reign, James II followed in the footsteps of his predecessor and asked for permanent revenues, especially custom revenues, to avoid parliamentary control on his spending (Carruthers 1996, 33). However, during Williams' reign the war with France, which lasted from 1689 to 1697, saw the return of parliamentary control as William had to recall Parliament frequently to raise more money and his reign enhanced the position of the Parliament. During this period, the new dependency of the Crown on Parliament was institutionalized by the financial settlement (Carruthers 1996, 33).

The transformation of the social relations of production in the realm of agriculture and industry translated into state power by the increasing attachment of the British state to newly emerging financial class fractions while landed class fractions lost their power. Moreover, as the commerce and finance had made progress, the signs of conflict between the landed interests and monetary interest visibly appeared (Moore and Rhodes 1973, 30). Financing wars during the late seventeenth and early eighteenth centuries as the focal point of the transition from the old regime to a new one, in which the power balance between different class fractions shifted dramatically. Britain was able to finance its wars thanks to the system called “fiscal-military state” (Brewer 1989, xviii). First, this system created a growing tension between the monetary and industrial interests and landed interests as the former class fractions promoted “an aggressive foreign policy in pursuit of raw material and markets”, while the latter feared “higher taxes in an age when the land tax was the main source of revenue” (Moore and Rhodes 1973, 30). It changed the balance of power within the parliament as the political power of the landed ruling classes had challenged by the rising bourgeoise. The power of the landed gentry started diminishing with the emergence of the new public financial system.

However, in a few short decades, a new powerful group had arisen, the monied interest (Carruthers 1996, 88). Even though landed elites controlled local institutions and had a strong presence in both Houses of Parliament, they lost their power against monied interest. It was because the monied interest gained disproportionate power over public policy due to increasing financial dependency of the government to sustain the British war machine. In addition to this increasing power within the government structure, money class fractions gained wealth from government loans and fees while landed interest heavily shouldered the tax burden through the land tax (Carruthers 1996, 88). These tensions between productive class fractions and money class fractions marked the hegemonic struggle to control the state. While productive forces were the ones that started the change in the social relations of production, it was monetary class fractions that managed to institutionalize its interests within the state apparatuses.

4.2. Ideological Change

The role of ideology is crucial in the formation of a hegemonic historical bloc in a neo-Gramscian framework. Ideology integrates different class interests and forms in an identity within a national context that later expands internationally. The formation and expansion of the hegemonic ideology complements "the rule of a class through its ownership of the means of production" (Kumar 1993, 382). The rule of the hegemonic bloc is institutionalized within the civil society and the political realm by the intellectuals, the "dominant group's deputies" (Gramsci 1999, 145), who "perform their key function of supplying legitimacy and creating consensus on behalf of the ruling groups" (Kumar 1993, 383).

The previously dominant mercantilist ideology was designed "to establish the power or strength of the state by making it independent of other states in the economic sphere" (Lipson 1943, 1). The Corn Laws and legislations that prohibited machinery export and emigration of skilled artisans were very much at the national level (Mokyr and Nye 2007, 59). However, at the international level, the British state employed systematic mercantilist policies to protect local manufacturers from foreign competition and pushed British merchants to foster in the long-distance trade. For example, duties on French linen were 50 per cent and 70 per cent of duties imposed on other French manufactures under the government legislation of Navigation Acts (Cippola 1993, 206). A series of Navigation Acts starting from 1651 to 1662 ensured that coasting trade and long-distance trade of the British merchant reserved to British ships and crew (Cippola 1993, 206-207). Hence, British merchants became a "key figure in the expansion of English overseas trade" (Edwards et al. 2009, 553). And this expansion "laid the basis of British purchasing power over Europe" (Deane and Deane 1979, 55).

Finally, these mercantilist policies protected "a narrow range of merchants, manufacturers, financiers, ship owners, planters" (Mokyr and Nye 2007, 58). On the other hand, these aggressive mercantilist policies prompted raids against British merchants and settlers who were vital in long-distance trade (Mokyr and Nye 2007, 58). British state responded to those raids by using its naval and military force. However, interestingly British state financed those wars by mainly using tax income and therefore involved in a redistribution of the capital from "tax-paying public to small special interest group" (Mokyr and Nye 2007, 58). On the other hand, efforts of British merchants on foreign trade allowed British state to obtain more and more precious metals and this situation returned as high inflation to British economy.

It is important to understand the class position towards the free trade during the rise of cosmopolitan free trade. While wage-labour consisted of mostly those who were evicted from their land, the industrialists were composed of different class fractions. According to Crouzet's (1985) study of 226 large industrialists, only 19 per cent came from manufacturing families and 23 per cent from the mercantile families which were more dominant class fraction in the mercantilist productive forces. However, between 1750 and 1850, large farming families invested in industrial production by using their surplus capital thanks to their increasing income from agriculture due to the increasing productivity as a result of the change in the social relations of production in the agriculture. Perkin (1990, 149;153) argues that "it was the landed rulers of England who … adopted the dynamic policy of laissez-faire in internal industry", with the political elites even way before the "factory system was in its infancy". The landed class fractions were the ones who were pushing the laissez-faire doctrine in economics, not the mercantilist merchants or the masses released from agriculture. Therefore, their understanding of free trade doctrine fit according to their interests. They accepted parts which suited their outlook, such as the negative effects of the wage regulation, and rejected of those which did not suit like their strong support on mercantilist corn laws (Perkin 1990, 153). Because corn laws protected their rising rentier income as it pushed agricultural prices higher. In conclusion, it was the landed aristocracy who had the major responsibility of the breakdown of the old system. In the beginning of the nineteenth century English state and aristocracy attacked the centuries old legislations protecting workers' standard of living and conditions of work to sustain new mode of production. At the end of the industrial transformation "the employer not only controlled labour, inventories, and fixed capital but could also choose the technique of production, by himself" (Mokyr 1989a, 113).

The rise of free trade as an ideology was a gradual process that started with Adam Smith's attack on the "the mean and malignant experiences of the mercantile system" in 1776, developed further by David Ricardo along with James Mill and the Robert Torrens in 1820s (Frieden 2006, 3). Free trade ideology replaced mercantilist ideology after 1846 and it was further institutionalized within the British state during the 1850s. Britain became "the breeding ground for classical economic theory, having enthusiastically embraced free trade, the gold standard, free capital movements" (Frieden 2006, 32) and further expanded this ideology abroad. The crusade of the classical economic theory was first focused on the national economy specifically, but by the 1850s the discussion revolved around international trade and foreign policy. Even after the economic underpinnings of the free trade were triumphant, there was a great deal of debate over the political application of the free trade. While during the mercantilist era power of the state depended upon the wealth generated by incorporating territories and peoples into the British Empire, the newly emerging free trade supporters attacked mercantilist colonialism and promoted a cosmopolitan free trade ideology.

During the 1830s, E. G. Wakefield, a colonial administrator, argued that free trade would be best employed in an economy where oversupplied capital could be employed for productive means in the colonial possessions which could "siphon off not only manufactured exports but also surplus capital and labour" (Cain 1980, 15-6). This economic policy could solve the problems posed by rapid industrialization and urbanization, such as economic distress and unemployment, "by extending the field for employment of English capital and wages, by establishing a wide trading system and colonies" (Semmel 1970, 89). By emigration of the surplus labourers pushed out of their agricultural holdings wages, would rise in Britain and the productive employment of the British capital used by surplus British labour in the colonies was the only way in which Britain "could escape from that corrupting and irritating state of political economy" (Wakefield 1834, 89).

What Wakefield envisioned was a model of free trade imperialism expanded by private, individual enterprise that became the basis of the struggle between cosmopolitan free traders and free trade imperialists. Alexander Baring, a member of the famous finance house of the nineteenth century and a Member of Parliament, attacked the method of colonization by private companies and emigration of labourers, as he argued that this "experimental method" was based on "interested motives" (Semmel 1970, 113). The press also attacked Wakefield's colonial programme by underlining his involvement in the New Zealand Company and the role of the Government in this scheme. In this scheme, the British Government was to create a national fund for emigration of the British labourer to the colonies that would be raised from direct taxation and from the poor-rates (Semmel 1970, 117). The Economist (17 March 1849) described increasing government role in determining both the profits of capital and the wages of labour as "vicious". Wakefield's programme and free trade imperialism failed against cosmopolitan free trade. However, Wakefield's foundations and the struggle between free trade imperialism and cosmopolitan free trade surfaced with the relative decline of British hegemony and eventually Wakefield's ideas were modified and became the basis of the protectionist movement of the 1890s and 1900s, which will be discussed in detail in the next chapter.

The leading figures in the dismantling of the old mercantilist imperialism were Tucker, Huskisson, Brougham, Joseph Hume and Cobden (Schuyler, 1945). These names were the spokesmen for the anti-imperialism stemming from the orthodox political economy after Adam Smith and David Ricardo. Richard Cobden and other influential figures formed what is called the Manchester School, which was a group of businessmen who fought against the Corn Laws and were strongly committed to the free trade (Grampp 1960, vii). While the economic viewpoint of this anti-imperialist group was shaped by these prominent liberal thinkers, their political standpoint was later shaped by cosmopolitanism, internationalism, humanitarianism, and pacifism, "all that later generation was to call Cobdenism" (Semmel 1970, 2). However, it is important to note that the Manchester School was far from other intellectual groupings and classical economic groups, as they lacked a consistent and coherent doctrine, but had particular ideas about the positive outcome of free trade on the price of agricultural goods, on the demand for manufactured goods, on wages, on employment and on rents (Grampp 1960, 2). The impact of the Manchester School and Cobdenism was crucial in the formation and expansion of British hegemony. Especially, the constant emphasis on free trade and peaceful international order fostered by free trade were to be theorized later as hegemonic stability theory.

Richard Cobden's understanding of economics was a view of class harmony between industrialists and the working classes. He furthermore adopted the harmonious economics idea of the Frederic Bastiat (1850) and envisioned a world order in which free trade was the linchpin of this system, that would bind other states together with Britain by increasing webs of commercial intercourse that would in time render war impossible (O'Brien and Pigman 1992, 38). The underlying ideology behind this was Cobden's benign view of a "cosmopolitan and pacific international division of labour" which creates harmonious relations among states (Semmel 1970, 158). This world order would be this petty bourgeois ideal transformed onto a world stage by the extension of foreign trade as the means of increasing the wealth of other independent nations (Cain 1978, 566). Cobden argued that increasing commercial activities would profit all the consumers in each country and they would turn against any government activities that might interrupt free trade (Cunnigham 2007, 77). Furthermore, according to Cobden (1836a, 11), the industrious classes of England had no interest at all in war-making since "wherever a country is found to favour foreign commerce … England partakes more largely of the advantages of that traffic than any other state" (Cobden 1836b, 9). Hence, the protection of colonies were useless and expensive and resulted in greater possibility of armed conflict for colonial markets. Free trade, on the other hand, was the essential foundation for an era of universal peace, as both parties involved in free trade were better off due to the law of comparative advantage. This doctrine on the colonies became one of the most important ruptures between different class fractions after the financialization of British economy, which will be discussed in the next chapter.

4.3. Institutional Change and the rise of free trade historical bloc

Robert Cox (1987, 431) sees coming of this new historical bloc under the leadership of aristocracy which was in control of state affairs while the bourgeoisie had gained control of economic affairs. Overbeek (1990, 30-31), on the other hand, argues that the bourgeoise "was never able to replace the aristocracy as the hegemonic class fraction in Britain". As discussed earlier, these two accounts follow similar neo-Gramscian route but offer two exclusive accounts of rise of British hegemony. This research argues that this is not because of the theoretical framework but the exclusive empirical accounts they provide. Hence, this section provides an empirical account of the establishment of the free trade historical bloc under the control of monetary class fractions with support of the bourgeoisie and the concession of the working class. Hegemonic order of the free trade historical bloc emerged only after late 1840s when industrial and financial interests of the bourgeoisie institutionalized within British state. The years between 1780 and 1840 witness suffering of the people of Britain under the external compulsion of the enclosures, the wars, the poor laws, the decline of rural industries, and the counter-revolutionary movements within the state (Thompson 1963, 445). Mercantilist historical bloc of the old regime which was led by the landed interests of the aristocracy had become an obstacle to further development of the industrial and monetary interests. While emergence of agrarian capitalism gave rise to the industrial capitalism, they both gave rise to the financial capitalism. emergence of free trade historical bloc under the aegis of the monetary interest had been gradual through protracted struggles including the Reform Bill of 1832, Chartist Movement between 1838-1848, and the repeal of the Corn Law 1846. Only after these developments monetary interest managed to secure the consent of the manufacturing middle classes and appease the working class.

The social struggles that erupted after the Civil War had a crucial impact on the hegemonic struggle between different class fractions. As discussed in the previous section, increasing reliance of the British state to the monetary class fractions for the finance of military spending and the increasing tax burden of the landed classes resulted in increasing tension between rising monetary class fractions and landed aristocracy. Middle classes and working class, on the other hand, were torn in between these class fractions as both landed aristocracy and merchants had undeniable investments in the realm of production. With the end of the Napoleonic Wars, fracture between monetary and landed interests got more visible. Monetary interest attacked to the mercantilist monopolistic arrangements of the landed aristocracy and increasing their presence in the realm of public and private economy and ensure the support of rising middle classes. Landed aristocracy, on the other hand, attacked deliberately to the monetary interest by trying to reduce the increasing reliance of the state to the monetary class fractions and push for one last time for protecting their interests. This growing polarization had led to increasing struggle between those class-fractions in the form of legislative-parliamentary struggle to gain the control of the state.

The first important event that marks the struggle between different class fractions for achieving hegemonic power embodies within the Corn Law of 1815. Starting right after the Civil War, the landed aristocracy had been leading the hegemonic historical bloc which transpired an amalgamation of landed and industrial interest up to Waterloo. Until that point of time, England was ruled by a committee of landlords who assumed the state power for themselves and showed patronage of their particular rights (Moore and Rhodes 1973, 19; Perkin 1990, 25). They tried to incorporate manufacturing interest into national political life as their subordinate partners (Hudson 1992, 191). They did not support a laissez-faire policy deliberately as they believed it was their duty to lead the nation to increase its wealth and power relative to other states and they used their position to regulate internal industry and consumption for their mercantilist ends (Perkin 1990, 54-55). However, the Corn Law which was coincided with the end of the war became a starting point of the reconfiguration of social forces that led to the establishment of free trade historical bloc. Corn Laws were defined as the “starvation law” in the most basic sense (Jones 1982, 18), that aimed to protect landed interest selfishly at the expense of the rest of the society (Perkin 1990, 157). After twenty-three years of war, thousands of disbanded soldiers returned to find unemployment in their villages caused by the enclosures (Thompson 1963, 603). The Corn Law of 1815 just added up more suffering since the legislation increased food prices, especially the price of bread (Hudson 1992, 77; Perkin 1990, 134). At the same time, landowners and farmers aimed to continue profiting off high agricultural prices, which they hope to perpetuate through the corn laws of 1815 (More 2002, 88).

Addition to this increasing food prices, another action taken by the aristocracy targeting monetary interest that had far reaching consequences was the Act of the Resumption of Cash Payments, or in another name Peel’s Bill. After the war, the income tax that was raised during the war time to match the ever-increasing public debt of the government was eliminated in 1816. As discussed earlier, income tax was directly targeting the landed interest and was certainly important for the government to fight against the budget deficit. When the Treasury confronted by the difficulties of servicing the government debt, they forced the Bank of England to take new responsibilities, most notably converting to a gold standard regime (Neal 1998, 2). The aim of this bill was to create a favourable exchange rate for the foreign trade to prosper, hence the custom revenues increase. Secondly, it was aimed to lower the interest rates that government loaned. However, the Bank resisted against this interference by making the transition as difficult as possible by amassing a large stock of gold and later refused to lower its interest rates of discount on bills and notes (Neal 1998, 4). This bill for the resumption of cash payments in 1819 was largely a law “made for the benefit of the fundholders, through which millions were thought to have been transferred from debtors into the pockets of creditors” (Jones 1982, 18). There were three important consequences of the Resumption of Cash Payment Bill of 1819. First, it became obvious that hegemonic class of the old regime were controlling the state only to sustain their interest, not the public interest. In other words, now aristocratic interests were not perceived as the general interest of the society. The main consequence of that development was increasing mobilization of the middle classes and working class to obtain more power in the state structure. Secondly, with this financial restructuring landed aristocracy even left their tenants in the hands of financial class fractions as aristocratic interest now moved beyond the landed interest as they now make their fortunes out of their financial arrangements. The main consequence of this was most crucial in the Reform Bill of 1832. Finally, the policy changes in the realm of finance effectively laid down the monetary regime, the gold-standard exchange rate system, the structure of the banking sector, the role of the Bank of England which all were cumulatively effective in “laying the basis for Britain’s dominance in the world financial system until the outbreak of World War I” (Neal 1998, 1-2).

While it was the landed interest which set the necessary conditions for the industrial capital to flourish, now it was obvious that the way that landed aristocracy use state power had to be balanced. Unbalanced use of aristocratic power provoked the middle-class mobilization. Since, the old historical bloc in which landed aristocracy transformed their interest into general interest was broken, the productive and monetary interests demanded increasing representation within the parliament of their interests (Perkin 1990, 176). Aim of the monetary class fractions was to “abolition of the protection and the monopoly… and the completion of the system of free trade”, while industrial class fractions demanded “the abolition of all state interference between employer and worker” (Perkin 1990, 188). The state, for free trade historical bloc, had the task of removing the existing obstructions to economic freedom inherited from mercantilist practices (Cox 1987, 130), if the free trade historical bloc were successfully established itself within state. It was this context reform movements taken off in Britain. The successive political crisis between early 1831 and 1832 demonstrates the rapid need for a quick reform as the industrial bourgeoisie knew that “a revolution should not take place, since they know that there would be a dramatic process of radicalisation” (Thompson 1963, 808-809).

At first middle-class productive forces tried to unite with the workers on the basis of the unity of productive class interests, yet, at the same time they were benefiting from the structural economic changes (Behagg 1982, 61). This duality had not lasted long as middle-class and working-class reformers struggled throughout the country for their respective movement (Thompson 1963, 810). Cox argues the Reform Bill was a victory of bourgeoise (Cox 1987, 137). Yet, in reality, the parliamentary reform gave so little direct political power to urban middle class, the number of UK electorate almost doubled from 435.000 to only 813.000 in and adult male population of about 6 million (Perkin 1990, 259). The reform bill still enforced a property qualification, which meant only upper-middle classes brought into participation in the state. This rejection of widespread middle-class involvement in the parliamentary pushed these middle classes closer to the monetary class fractions when they attacked landed interests. Working class on the other hand gained nothing from the Reform Bill. E.P. Thompson (1963, 832), cites a parliamentary committee minutes to explain how hand-loom weavers were feeling about the parliamentary reforms: "They viewed the Reform Bill as a measure calculated to join middle and upper classes to Government, and leave them in the hands of Government as a sort of machine to work according to the pleasure of Government". The most important result of the Reform Bill was the transformation of the middle classes from "anti-establishment to establishment figures" (Behagg 1982, 61). Even though the middle classes were still underrepresented within the parliament, they gained a new power in the local politics which transposed them in charge of suppressing local resistance, while previously they involved with the discussions of using physical resistance to unconstitutional government.

Combination of the deflation during 1825-26, high bread prices because of the corn laws, and the high unemployment because of the destroyed occupations of those handworkers resulted in bread riots, machine breaking and other outbreaks (Perkin 1990, 284). The refusal of the parliament to provide relief for the hundreds of thousands handloom weavers, and the poor law reform that aimed to leave fate of those suffering to the market forces showed how "the old sense of a right to assistance" transformed into "a form of compulsion to work for low wages" (Cox 1987, 136). The campaign to abolish the poor laws was "the practical proof that the ruling aristocracy, in spite of its philosophy, governed only its own interest" (Perkin 1990, 176). Chartist Movement and Anti-Corn Law League formed during these years. While their aims differed, both of those movements represent the final phase of the establishment of the free trade historical bloc. The Chartism believed that it was the state measures that allowed manufacturers to exploit the labour while it was the labour who was the source of all value (Briggs 1968, 296). Chartism started as more than a movement for parliamentary reform as the working class realized it was not possible to attain state power without struggle. However, critically, there was a struggle between revolutionary working-class fractions leaded by the handloom weavers and peaceful ones as the Chartist slogan expresses: "peacefully if we may, forcibly if we must" (Thompson 1963, 624). At the end, Chartism was an attempt to restore the right to the whole produce of labour by political means (Perkin 1990, 319-20). That is why aims of the Chartism overlapped with every other working class aim of the period (Perkin 1990, 320), especially the repeal of the corn laws. While working class interest was dominant in the Chartist movement, "the Anti-Corn Law league was the principal agency of middle-class mobilization" (Cox 1987, 136). Since middle classes and working-class struggle against the same foe, it was only natural there was some attempts to act together. However, these attempts failed because middle class members would not have the name "charter", and the working-class would not have them without it (Perkin 1990, 305). In reality, Chartist Movement had never been a real threat of physical threat, as the leaders of the movement rejected violence as an option (Perkin 1990, 320-322).

Moreover the Anti-Corn Law league was not "simply middle class but joint middle and working-class institutions", yet as we saw in the Reform Bill movement, middle class used working-class for the mobilization and agitation purposes and "to obtain the bill and then abandon them" (Perkin 1990, 304). This cooperation between middle class and working class was possible because of the peaceful nature of the Chartist Movement that possessed no revolutionary threat. It was only after the day when Chartism failed to capture the control of the state and struggle for the enfranchisement of the working class, middle classes accepted to cooperate. In other words, “middle-class institutions would accept working-class support only on their own terms” (Perkin 1990, 305). The repeal of the corn laws did less harm to the great landlords as they already moved beyond a mere agricultural, protectionist interest after the financial setting of 1819. On the other hand, the landed upper classes learned the limits of their power. Therefore, during the rest of the nineteenth century aristocracy sought cross-class alliances with the working class but they were not able to sustain their hegemonic position within the British state. According to Richard Cobden, the repeal of the Corn Law has realized the bourgeoisie victory (Cox 1987, 137). To conclude, repeal moved middle-class interest to a national level, the needs of consumers and the prosperity of producers before the unearned incomes of the landlords (Perkin 1990, 306).

To conclude, the rise of the cosmopolitan free trade historical bloc involves change in material, ideological and institutional realms in Britain. Change in the mode of production led the reconfiguration of social forces in Britain. Previously, dominant and powerful mercantilist historical bloc used to accumulate wealth through their power over the political state apparatuses and their accumulation involved coercive surplus extraction. The class struggle for the hegemonic power represented itself clearly within the repeal of Corn Laws, Chartist Movement, and the Reform Bill. These events marked the institutionalization of the free trade historical bloc under the leadership of monetary interest and the abolishment of the old ruling bloc leaded by the landed aristocracy. The cosmopolitan free trade historical bloc was established a consensual leadership over productive and non-productive forces, which managed to gain concessions from the working classes as well. As the dominant mode of production was cemented by the powerful ideologues within, the institutional structure of the state apparatuses changed and adapted accordingly to the new hegemonic social relations of production. As discussed earlier, the national energies of the hegemonic historical bloc later expand internationally and create a world order to sustain the material expansion of the hegemonic historical bloc. While this chapter provides a detailed outlook on the class struggle that was accompanied with the social change in Britain, the next chapter discusses the expansion of British hegemony internationally and the road to financialization from a material, ideological and institutional analysis.

Chapter Five: Decline of British hegemony

The rise of a historical bloc in the neo-Gramscian framework is a national phenomenon because it is bound up with how different class fractions contest and construct hegemony through national political frameworks (Cox 1983, 168; Bieler and Morton 2004, 93). Gramsci in his analysis distanced himself from the 'nested hierarchies' of scales such as regional, national and global as well as the scalar hierarchies of economic, political and ideological and rather aimed to analyze the concrete development of social relations of production and consolidation and the crisis of the historical blocs through the symbiotic relationship between structure and superstructure and between the economic and political (Jessop, 2005, 425-6; Morton 2006, 101). Hence, a world hegemony in the neo-Gramscian analysis could only be founded by a country in which "social hegemony has been or is achieved" (Cox 1987, 149). The establishment of a world hegemonic order is the outward expansion of the social hegemony established in a national context.

Expansion of British hegemony under the aegis of the finance capital class fractions took the form of foreign capital investments to other states which aimed to expand their economic activities in a way that would support their position as a supporter of British industrial pre-eminence. This material foundation was supported by the 'cosmopolitan free trade' ideology that argues that unilateral free trade policy provides a "peaceful and profitable commercial intercourse of all nations in accordance with the principle of the international division of labour" (Dean 1979, 150). Between 1846 and 1870, British hegemony had pursued both coercive and consensual methods to institutionalize this ideology all around the world. However, by the 1870s there was a growing challenge against this hegemonic world order that the British hegemony established. The 1870s also marked the start of the financialization of the British economy and the disintegration of the free trade historical bloc and stirred up the hegemonic struggle between monetary and productive class fractions.

As discussed earlier, the class struggle to achieve hegemonic position intensifies after the diminishing rates of profit which leads to the financialization and disintegration of the existing historical bloc unified under the productive usage of financial capital. However, there is not one Marxist theory of economic crisis, but several competing theories (Wright 1975). For this thesis, Marxist critical theories in the 1970s (Glynn and Sutcliffe 1972; Yaffe 1973; Mandel 1975, 1981) and the recent works concerning the global economic crisis of 2008 (Shaikh 2011), which argues that the fall in the rate of profit was the cause of the economic crisis are crucial. This understanding argues that there is a cyclical character in the mode of production, with successive phases of recession, upswing, boom, overheating, crash, depression, and so on (Mandel 1975, 3). As Clarke (1990) rightfully argues, these theories fall to the fallacy of mechanical productivism. Moreover, this productivist understanding treats the role of financial capital as secondary to the productive forces when explaining economic crises (Skarstein 2011, 51). This thesis, on the other hand, argues that it is the disintegration of the capitalist interests and intensification of the intra-capitalist struggle that leads to the economic crisis. As the possibility to profit from productive means diminishes in time, the clash of interest between productive and non-productive capital becomes evident as one class fraction of the historical bloc continues to profit, while on the other hand other class fractions face fierce competition and struggle to profit. The hegemony created by financial class fractions, which employed non-productive capital to foster more productive capital, started to wane with this increasing struggle. With the decrease in production, money capital set free from the concentration of production, and "the newly produced constant capital is stored up and finds no application in production" (Hilferding 1981, 284).

Money is not employed in this case because of the idleness of the industry and money is transformed into a medium of circulation instead of fostering production to ensure that all capitalist class fractions are united within the same historical bloc.

This transformation within the historical bloc leads to financialization. Financialization leads to the disintegration of the successful historical bloc and class struggle. This struggle reflects itself within the realm of ideology, just as in the rise of hegemony where the dominant ideology is challenged by the emerging ideology of the new accumulation regime. However, during financialization, the dominant ideology of the old accumulation regime is supported only by the financial class fractions and state apparatus. In this case of financialization, the process is led by financial class fractions at the expense of other class fractions and the interests of the state. In this case, if the state is less autonomous of financial class fractions, it will pursue policies to secure the interests of the financial class fractions. This chapter aims to unravel the relationship between the financialization of British hegemony and the decline of British-led free trade world order. While the majority of the literature establishes a causal relationship between financialization and the decline of hegemonic powers based on the comparison of the British and American cases, this research argues that it was the outward financialization that led to the disintegration of the hegemonic historical bloc in Britain. Furthermore, this research argues that the class struggle following the disintegration of the hegemonic historical bloc and the role that the British state played during this struggle led to the decline of British hegemony. Following a neo-Gramscian framework, this chapter will scrutinize the material, ideological and institutional aspects of the British hegemony, international expansion, and decline. To achieve this end the first part of the chapter will discuss the material basis of the expansion of British hegemony internationally. This part will focus predominantly on the expansion of the British mode of production to other states. The second part of the chapter will elaborate on two competing ideologies of free trade and protectionism. The final part of the chapter will discuss how the hegemonic struggle after the financialization of the British economy intensified the class struggle for institutionalizing their respective ideologies.

5.1 Material expansion and financialization of the British Economy

Achieving hegemony in a national context requires "the integration of a variety of different class interests and forms of identity within a 'national-popular alliance'" (Forgacs 1984, cited in Morton 2007, 98). This alliance of different class fractions should unite the competing and contesting heterogeneous interests of different class fractions to be able to form a hegemonic historical bloc. This unification of interests of different class fractions within a hegemonic historical bloc is followed by its expansion internationally. As we are going to observe in this section, the expansion of hegemony and the unification of particular capitalist interests are closely related. In other words, the expansion of particular capitalist interests internationally underpins the success of hegemonic historical bloc nationally. And it was the finance capital that managed to unite different class interests in Britain by transforming non-productive money capital into productive capital through a capitalist credit system that allowed British industry, commerce, and finance flourished and expanded internationally. Understanding this material expansion is vital as the expansion of hegemony internationally lays down the characteristics of the financialization process. From a Marxist perspective, financialization is the result of the falling rate of profit in general which could be avoided by further financial expansion (Sweezy 1997; Brenner 2006). But though this perspective might be correct when it comes to the pure economic explanation of the financialization, it misses the critical role played by different class fractions that constitutes hegemonic historical bloc in the making of financialization. A neo-Gramscian conceptualization of financialization offered in this research argues the class struggle between different class fractions within a hegemonic historical bloc is decisive whether financialization leads to a decline of hegemonic power or not.

The starting point of an empirical inquiry of the financialization should be the material expansion of British hegemony under the control of British finance class fractions. As discussed in the previous section, the rise of the money capital in Britain was closely related to the financing of government debts and war-making which allowed monetary class fractions to concentrate massive capital in the form of non-productive money capital. With the further development of financial institutions and intensifying class struggle, money capital transformed itself into finance capital which used that massive capital to be employed for further productive investments through capitalist credit systems (Hilferding 1981, 25). This process has led to the unification of the totality of capitalist interest under the control of financial class fractions and the establishment of the free trade historical bloc. The underlying material basis of the free trade hegemony in Britain was a cyclical trade cycle which aimed constant capitalist expansion through foreign investments. In this trace cycle finance capital provided the necessary capital to the industrial class fractions and sold the manufactured goods abroad by using their transnational business connections and in return bought necessary raw materials and agricultural products for industrial production. The success of this trade cycle depended upon two interwoven developments; increasing British foreign investments abroad and increasing purchasing power for other states. While British foreign investment bolstered the economic development of foreign countries and their purchasing power, increasing purchasing power for other countries meant increasing the purchase of British manufactured goods. This trade cycle functioned well in favor of British hegemony under an international free trade regime until the 1870s and underlay the success of British led world order. This trade cycle best be represented by the expansion of railways with the expansion of British capital internationally.

The impact of the railway expansions on the British economy nationally and internationally is the subject of the economic historians. This research, on the other hand, is focused on how this mode of material expansion i) provided the necessary means to sustain a cohesive social hegemony in Britain and British led world order and ii) led to financialization of the British economy? British railways expansion was the linchpin of the material expansion of the British hegemony that allowed free trade historical bloc to consolidate all other capitalist interest in Britain. Railway expansion in the Britain was the result of the accumulated non-productive capital from government spending and war-making. With the end of the war money capital had massive surplus capital and there was a growing investment crisis in the 1830s and 1840s, and it was the railways construction that rescued Britain a crisis of capitalism (Gourvish 1980, 33). Emerging financial institutions, such as joint-stock banks and large insurance companies provided the necessary capital for the construction companies that did not have the ability to raise necessary capital to finish railways projects. This transformation of the non-productive capital into productive capital has united previously separate economic spheres in a single market and fostered economic activities. The great railway boom that took place in the 1840s stimulated demand for other products such as coal, building materials, pig-iron and generated a wave of investments in other industries (Deane and Cole 1967, 232; Platt 1973, 6; Gourvish 1980, 25). This process unified the interests of the finance class fractions and productive class fractions. However, when the British demand for more railways faltered by the early 1850s, large contractors turned their attention to continental railways. Just like the national expansion of the railways, international expansion required capital movements which underlay the successful expansion of the free trade historical bloc.

Material expansion of the free trade historical bloc depended upon "Britain's ability to lend abroad, since the main ways of obtaining sterling were by exporting to Britain and borrowing from her" (Cain and Hopkins 1980, 481). And unless British consumption of foodstuffs and raw materials were raised, other nations were in no position to offer a return for British manufactured goods (Platt 1973, 7). Other option was to loan capital from British financial class fractions. The capital investment of Britain in foreign lands and opening of the British market for their agricultural production and raw materials allowed other states to allocate their resources for British manufactured goods (Platt 1973, 11). That is the reason why the consolidation and expansion of the British hegemony were under the control of the financial class fractions. Foreign investments provided the necessary conditions for the trade cycle worked that favored British capitalist interests at large. The foreign investments in the form of infrastructure construction fostered economic activities in the targeted countries and allowed them to produce more foodstuffs and raw materials. By using this increased production of foodstuffs and raw materials those countries were able to buy more British manufactured goods. The correlation between the increase in foreign investment and the growth of exports shows that the railway expansion of the 1850s and 1860s was indeed the underlying factor of British material expansion. While in 1830-1840 foreign investments accounted for only 0,9 per cent of GNP it rose to 2.2 per cent with the railway expansion of the 1850s and the growth of exports accounted at 4.7 per cent per annum between 1846 and 1873 (Cain and Hopkins 1980, 482). At first, the export demand was in large measure a railway demand such as bar iron and iron-rails which were estimated 22 per cent of the total demand between 1856, when railway exports were first enumerated separately, to 1870 (Gourvish 1980, 24). It is this railway expansion that pushed for trade liberalization and removed the urgent need to secure colonial markets and resource pools which had been protected by coercive measures before the 1850s.

The quarter of century after 1846 represents apex of British hegemony of the world economy. Expansion of free trade hegemony should be sought within this pinnacle of British dominance in the world economy. Industrializing western European countries in Europe borrowed British capital for railway building, and imported iron, steel, machinery from Britain (Cain and Hopkins 1980, 482). The concentration of production for the home market in the previous decades "induced the independent rolling-stock producers to specialize almost entirely in overseas market" (Gourvish 1980, 25). This trade cycle allowed these countries to lower their tariffs consensually as they believe they were also gaining from this cycle. Holland repealed their own Corn Laws and Navigation Acts between 1847 and 1851, the Zollverein lowered the industrial tariffs in Germany in 1853, the France lowered their tariffs in 1856-7, Switzerland lowered tariffs between 1851-5, Belgium, Italy and Scandinavian states lowered their duties during this time period, and finally in the United States, tariffs were their lowest for the entire century in 1857 (O'Brien and Pigman 1992, 98). Extension of free trade regimes within the underdeveloped regions of the world continued as well with the "open door treaties" signed with Siam, Japan, and Morocco (Cain and Hopkins 2016, 483). After 1846, it is obvious that there was an increasing tendency within the British state structure to pursue a cosmopolitan free trade with the consensus of other states under the influence of great finance houses of London and their foreign counterparts. Critically, this process was fundamentally different from the previous imperialistic trade agreements coercively pushed Turkey in 1838, Egypt and Persia in 1841 or direct British occupation Aden in 1839, Hong Kong in 1841, and Labuan in 1846. Quite contrarily, trade liberalization after 1846 was the expansion of British hegemony worldwide in the neo-Gramscian sense.

One of the most important elements behind the success and demise of the free trade cycle was the gold standard ensured by the British hegemony. This monetary stability provided by British state was important in the material expansion of the British hegemony. The gold-standard achieved by the Bank Act of 1844 removed the state from currency manipulation and ensured the safety of the capital investments home and abroad (Cox 1987, 132). Starting from heavy foodstuff importations of foodstuffs, exports and the price of exports increased and that disturbed the equilibrium of trade between Britain and other countries which were in favor of Britain before the implementation of the free trade (Jenks 1927, 155-56). The increasing price of exported goods have led two important consequences: i) other countries were able to buy more British manufactured goods, and ii) there were less gold circulation of the money for further investment at home or abroad that prevents further capitalist expansion (Dornbusch and Frenkel 1984, 233). Monetary crisis of 1847 and 1857 intensified in Britain with the increasing outflow of the cash reserve out of the country (Hilferding 1981, 275). However, at the international level, the international gold standard was able to operate with really small reserves considering the size of the international transaction (Ingham 2004, 136). Britain solved the monetary crisis cut short by suspending the Bank Act that limited the bank issue arbitrarily to the amount of the gold reserve plus 14.000.000 pounds (Hilferding 1981, 275). In the short run, this action ensured the monetary stability required for the expansion of foreign trade and foreign investment but in the long run, it laid down the basis of British financialization in which productive forces were sacrificed for non-productive ones.

A second important factor behind the demise of free trade historical bloc was again rooted in the material expansion of the British hegemony: outward expansion of British capital. The success of the free trade historical bloc depended upon the successful institutionalization of the free trade internationally which were ensured by the steady outflow of the British capital. The export of capital or foreign investments, in other words, was “an English monopoly” which secured the domination of the world market since England had neither industrially nor financially any reason to fear competition from other countries (Hilferding 1981, 323). However, this brief triumph of British hegemony on the world economy was challenged starting from the 1870s. First, even though foreign investment could generate export order, it also encouraged the export industries of other countries as the British productivity declined (Cain and Hopkins 1980, 485). It is important to understand that analysing foreign investment “merely as a factor in the rational balance-sheet” or speaking of it “as the use of purchasing power to procure an income from abroad” (Jenks 1927, 4), would not be enough to understand the creation of a social relations of production beyond national boundaries. The growing importance of foreign investments has led to the creation of a multilateral trade system in which London became the centre of the financial and commercial of world trade based on the use of sterling (Cain and Hopkins 1980, 481). In this system, industrialism has been transmitted to the distant part of the world (Jenks 1927, 5). While this trade cycle was beneficial to all capitalist class fractions in Britain at first, by time with the growing volume of foreign investments allowed other states to compete with Britain in manufacturing as they were able to find necessary investments to expand their productive base and produce more efficiently. British industry on the other hand relied upon the country banks mostly established by the industrialists for the long-term financing of their ventures up to 1870s. After the economic downturn in the 1870s, most of those banks collapsed and the financial institutions in London had little involvement in the long-term finance of the British industry (Elbaum and Lazonick 1984, 569-70). As a result, the progress of the industrial sector began to decline relative to other industrialized countries, while invisible earnings from foreign investments have risen between 1850 and 1875 (Cain and Hopkins 1980, 482).

As the comparative advantage of the British manufactures waned against the competition, Britain had to export more manufactured goods for less price or gain more profits from non-productive invisible sectors to sustain trade balance. Increasing the export of manufactured goods were not as easy as the previous decade since the industrial monopoly that Britain had over world trade was challenged by almost self-sufficient Germany and United States in terms of industrial output achieved by their own finance-capitalism (Jenks 1927, 330; Cain and Hopkins 1980, 484). Moreover, free-trade ideology lost ground against emerging protectionist tendencies in the developing world. While at first protective tariffs were "means of defence" against British manufactured goods in their home markets they were transformed into "a means for the conquest of foreign markets" by their domestic industry with the development of export subsidies (Hilferding 1981, 310). In other words, as a result of export subsidies British foreign investments directly supported developing industries of its competitors. This challenge from resurgence of mercantilism, checked and reversed the "evolution towards a liberal international trading order" (O'Brien and Pigman 1992, 104). The very basis of the British hegemony was challenged as the commercial treaties with Germany, France, and other countries expired, and tariffs were raised substantially between the 1870s and 1890s. While protectionist measures hurt the British industry, Britain sustained a unilateral free trade regime until 1914. The most important reason of this policy-making was the increasing importance of the finance capital in the material expansion of the British hegemony. In the quarter-century after first material expansion started, money was made more readily for commerce, finance, and trade than manufacturing and industry (Rubinstein 1977, 111). Free trade and invisible earnings were the two pillars of financial supremacy that eventually undermined industrial pre-eminence of Britain (Cain and Hopkins 1980, 482). As a result of this material expansion, Britain transformed from the role of 'Workshop of the World' into 'Clearing House of the

World' (Rubinstein 1977, 111). While the industrial power of Britain waned, invisible earnings increased and compensated for the growing trade deficit.

International capital movements were crucial in the expansion of British hegemony. Yet, it was even more important in the financialization of the British economy. British foreign investments in the form of railway investments were crucial in the making of financialization. By the mid-1870s British capital holding abroad were amounted around 1 billion to 1.2 billion sterling, of which almost all had taken the form of portfolio investment (Jones 2004, 8). And those investments earned about twice as much as those in Britain (Frieden 2006, 50). Almost 70 per cent of all British portfolio investment were used building the social capital of the borrowing nations of which 41 per cent were invested in railways and its major components so much so there was a special section of the London Stock Exchange for American railways with a handful of firms specialized in this field (Simon 1967, 25; Jenks 1951, 376). The critical issue about this railway investments were the managerial structure of the investments. British capital assumed almost no managerial control over their railway investments in the USA (Jenks 1951, 378; Jones 2004, 8). The capital supply of British financial class fractions to the USA railways was the supply of private American companies, American promoters, American operators, and managers (Jenks 1951, 378). However, the lack of managerial control with the addition of the recession in the USA resulted in massive defaults by a large proportion of American railways (Jenks 1951, 376). As a result of these defaults, there were considerable withdraw from productive foreign investment that helped British economy by fostering the trade of coal and steel and increase in the non-productive forms of investments that deepened the financialization of British economy.

After the relative industrial decline, cosmopolitan free trade world order definitively lost ground worldwide and replaced by the "era of rival imperialisms" (Cox 1987, 151). The capital that had been withdrawn from railway investments aggressively searched for markets. This search has led to the disintegration of the cosmopolitan free trade historical bloc, especially between the productive interests of the industrial class fractions and the non-productive interests of the high finance.

The price of sustaining unilateral free trade policies that have been pursued by Britain paid by this imperialistic expansion. In the course of the 1880s and 1890s, financial class fractions shifted their interest from the capitalist credit market to the gold mines in South Africa. Gold mines provided them with the necessary means to further financial expansion without relying on a productive base since under the gold standard regime increase in the amount of gold in circulation would allow banks to issue more and more currency. In other words, the new gold reserves found in South Africa underwrote the British capital's capacity to finance unilateral free trade on a global scale (Cain and Hopkins 1980, 487). However, British control of the Transvaal region was far from a consensual expansion of British hegemony, rather it was enforced by the British state to protect the interest of high finance. Cecil Rhodes, a business partner of the Rothschild family and the prime minister of the Cape Colony, coveted a larger share of the South African goldfields and pursued the British state to force all of South Africa into the empire (Frieden 2006, 37-8). The Boer War was one of the many examples that demonstrate the power of the financial class fractions over the British state and their will to secure their own interest at the expense of British hegemony.

The role of the large finance houses in the financialization was so critical as they moved to a position of power over the economic policies of state power. The power they derived from the funding British government during the early years of the nineteenth century proliferated with the material expansion by funding all kinds of government debts including all the countries in Europe (Jenks 1927, 44). Their power rose to immense heights after the first phase of the material expansion so much so Paris Rothschild simply snubbed Duff Green, a US Treasury representative who was searching for finance in England: "You may tell your government that you have seen the man who is at the head of finances of Europe and that he told you that they cannot borrow a dollar, not a dollar" (Jenks 1927, 106). As a result of this increasing power of the financial class fractions, British capital holdings abroad increased from about 1.2 billion pounds in 1875 to 4 billion in 1914 (Pollard 1985, 490). However, increasing influence meant monopolization of the London finance houses in the British capital market (Jenks 1951, 31). As those houses were not interested in sustaining cohesion within the hegemonic historical bloc, they exported most of their capital to finance foreign government-guaranteed projects instead of providing long-term capital for the industry. An important consequence of these arrangements was the separation of provincial industrial enterprises from national financial institutions (Elbaum and Lazonick 1984, 570). This disjunction was the result of low investment in the British industry which has led to slower economic growth and increasing reliance on the invisible exports which kept the balance of payments in check (Cain and Hopkins 1980, 484-5). Supporting this argument, during the first years of the 1900s British trade deficit was equal to 6 per cent of GDP, which was countered by net earnings on overseas investments of 7 per cent of GDP (Frieden 2006, 50). However, after 1890 New York investment houses, some of which were the agents of the material expansion by brokering investments and run trade in the name of British financial class fractions, “assumed de facto leadership of a cosmopolitan body of investors” in which British were still a substantial, but not a distinctive part (Jenks 1951, 381). This development was the final phase of the relative decline of British material power which continued until the First World War when the USA undeniably replaced Britain as the most powerful economy in the world.

The material expansion of the British hegemony revolved around the notion of cosmopolitan free trade. This ideology provided the necessary conditions of the material expansion of British hegemony which united different class fractions around a single historical bloc. The underlying logic of the cosmopolitan free trade was the notion of comparative advantage that argues each party would better off in trade if they produce what they produce most efficiently and trade without restrictions. While the application of free trade imperialism had involved the use of brute force, cosmopolitan free trade required a peaceful environment for British hegemony to expand worldwide. From a neo-Gramscian perspective, British hegemony used consensual means and draw other states to the British led world order. Within this world order, expansion of British hegemony ensured by the expansion of railways. Railway expansion represents how different class fractions in Britain one whole historical bloc. Gold standard ensured the monetary stability and security from currency manipulation by the British state as we have seen in the previous chapter, which allowed British financial class fractions to secure the material expansion in the form of foreign investment. While British financial class fractions provided capital credit for other states to extend their infrastructure and integrate regions that provided the cheap raw materials and foodstuffs to the world economy, British industrial class fractions took advantage of cheap raw materials and foodstuffs that these developing countries provided thanks to railway expansion. Moreover, as these developing countries profited more from selling raw materials, they became valuable customers for the British industry and shipping. This multilateral trade cycle depended upon the removal of protective tariffs, the promotion of free trade, and transnational financial networks.

The material expansion of the British hegemony between 1846 and 1873 also laid the foundation of the British financialization. First, railway expansion fostered the demand for a limited number of industrial goods such as coal, pig-iron, and steel. Secondly, the production of these items did not require an extensive managerial and technological prowess and the rest of the industry were not able to attract necessary capital investment for sustaining a level of productivity to compete with other industrializing countries that were able to develop more productive manufacturing techniques. Moreover, increasing outward capital movement from Britain led to the formation of a transnational capitalist class freed from territorial boundaries and promoted their own capitalist interests over states or other capitalist class fractions. The success of the British material expansion first faced a challenge with the re-emergence of the mercantilist tendencies. Rising protectionism increased the maintenance cost of the free trade regime as well as hindered the British industrial supremacy by squeezing the profit of the manufactured goods with the protective tariffs. British hegemony counterbalanced this increasing cost from increasing invisible earnings by further expanding foreign investments. However, this outward financial expansion came to an end because of the gold-standard regime. As the maintenance of the free-trade regime started to rely more on the return of the British foreign investments, shipping, and insurance, the limitation of further financial expansion that the gold-standard posed deepened the relative economic decline British hegemony faced. In addition to that lack of managerial control that British financial class fractions on their foreign portfolio investments made their investments vulnerable when investee countries defaulted on their debts. Therefore, financial class fractions pushed for a policy change from cosmopolitan to free trade imperialism and moved their investments to the colonies where they could protect their investments by force of the British state. The next section will discuss the ideological expansion and decline of cosmopolitan free trade that had underpinned the expansion of British hegemony and the establishment of British led world order.

5.2. Cosmopolitan free trade vs protectionism

Cobdenism symbolized the liberal vision of liberty, of global prosperity generated by free trade (Trentmann 2008, 134). Liberty and prosperity were the outcomes of the workings of the division of labour and free trade both nationally and internationally (Cain 1978, 565-6). However, there was one important problem that Cobdenism created between industrial and financial class fractions. Cobden, being a pacifist, was critical of profiting from war-making and believed free trade was a benign, good, true, and just principle (Semmel 1970, 161). War-making in Cobden's conceptualization was disastrous for industrial class fractions, while war-making was extremely profitable to "those [which] bankers, their agents, and money mongers" (Cain 1978, 567). Cobden was harshly criticized by English businessmen when he opposed the loan request by the Russian government to buy armaments, and his opposition to the Crimean War turned the businessmen against his ideology (Grampp 1960, 117-8). After all Manchester School's ideas were dictated entirely by the economic interests not universal peace and when cosmopolitan free trade clashed with internationally rising new protectionism, businessmen turned on Cobdenist ideals as cosmopolitan free trade started to hurt them economically. Cobden was never able to secure the support of the businessmen for pacificism that they gave to free trade (Grampp 1960, 127). Only a few years after Cobden's death in 1865, the influence of the Manchester School and cosmopolitan free trade declined considerably. Cobden's supporters began to question the free-trade idea and some of them supported Reciprocity Association which aimed to increase exports by raising reciprocal tariffs and imperial preference agreements (Grampp 1960, 130). The most important underlying factor of this shift in the ideological position of British businessmen was the fact that growing support for the new protectionism in other countries hindered their competitiveness.

Even though the effects of the protectionism were most profound during and after the 1870s, its ideological underpinnings were established long before the 1870s. Alexander Hamilton, the First Secretary of the Treasury, was one of the most important figures who opposed Adam Smith's orthodox economics and laid the foundations of the industrialization of the USA. The main premise of Hamilton's political economy was its stance towards the role and involvement of the state in the realm of economics. For Hamilton, the main purpose of the political economy was the preservation of private property and the main purpose of the government was to protect private property and to provide a stable environment for economic activity (Nelson 1979, 972). In international relations, he was supporting those mercantilist ideas and argued that self-sufficiency and wealth were the means for achieving American supremacy (Cooke 1975, 379). However, his most important contribution to the attack on the British free trade was the famous Report on the Subjects of Manufacturers which has cast a long shadow over the USA trade policy toward the industry (Irwin 2003, 1). Hamilton managed to present the case for manufacturers not only in practice but also in theoretical terms (Cooke 1975, 375). His mercantilist ideas of wealth generation start with industrial pre-eminence, which he perceived as a prerequisite of power and prestige, and industrial pre-eminence requires "the incitement and patronage of government" (Irwin 2003, 4). Hamilton wrote in 1787, in Federalist, that industrial start-up would be only possible "under a vigorous national government, the national strength and resources of the country, directed to a common interest, would baffle all the combinations of European jealousy to restraint our growth" (Peskin 2002, 238).

Specifically, Hamilton's attacks on Smithian orthodox economics in terms of industrial development focused on the concept of an invisible hand. Hamilton fiercely opposed the idea of leaving the industry to itself, to the "invisible hand" which would naturally find its way to the most useful and profitable employment (Irwin 2003, 4). Hamilton contrarily argued that the promotion of the industry and following economic progress was not an automatically guided process (Cooke 1975, 379). Rather, the government should adopt activist policies to guide domestic manufacturing, including protectionist tariffs. His most important contribution to the struggle between free trade and protectionist ideology was not his objection to the free trade since he supported free trade with Britain and even provided a stable trading environment for British foreign trade since, during the 1780s, trade with Britain produced the 80 per cent of tariff revenues to the USA government (Nelson 1979, 973). Hamilton's most important contribution to this struggle was his idea of using surplus customs revenue to be used to finance various subsidies on production while using government spending on infrastructure to develop economic regions (Irwin 2003, 5). Hamilton rated subsidies as "one of the most efficacious means of encouraging manufactures" since those subsidies would not create scarcity and raise domestic prices (Irwin 2003, 5). Moreover, Hamilton believed that by implementing subsidies instead of strict tariffs he could remove the divide between agricultural and industrial interests over tariff rates and use financial capital to enlarge both industrial and agricultural markets. Hamilton's ideas were not implemented straight away by the USA government, but these ideas provided a blueprint to the protectionist ideology in its struggle against free trade.

Friedrich List was "one of the first heralds of the political economy of nationalism and one of the most influential figures among its proponents in Germany and Europe" (Levi-Faur 1997a, 155). He was deeply influenced by Alexander Hamilton's ideas and the American conditions that he has had experienced during his time in the US. List's ideas were crucial for the protectionist ideology in their struggle against cosmopolitan free trade. “The object of the economy … is not only wealth as the individual and cosmopolitan economy” (Learle 1943, 433), rather a reconceptualization of mercantilist ideology in which there is a correlation between power and wealth within which wealth is fostered by national power and national power is secured by national wealth. List was famously known for his contributions to the theory of the infant industries in which he conceptualized the confrontation between a less productive economy and a more productive economy (Senghaas 1991, 453). Two important themes come forward in List’s protectionism that was key in the ideological struggle against cosmopolitan free trade: free trade, and the role of the state in economic affairs. List’s political economy revolves around the concept of national productive powers. The conceptualization of productive power in List is based on a distinction between the causes of wealth and wealth itself (Levi-Faur 1997a, 157). List (1841, 133) argues that “a person may possess wealth … if however, he does not possess the power of producing objects of more value then he consumes, he will become poorer”. List applied this logic to the governance of the national economy and argued that free trade was ruinous for the less-productive nation and this idea shaped his further outlook on free trade.

According to List, Smithian and Ricardian free trade theory is nothing but a British policy that favoured British interest that creates a harmful division of labour between developed and underdeveloped countries (Levi-Faur 1997b, 366). “Free competition between advanced factories of England and relatively backward factories of other manufacturing countries would … simply lead to the destruction of the industries of the weaker states” (List 1837, 48). As the exchange relationship proceeds between more advanced economy and less advanced one, there will grow a “competence gap” between societies in favour of the advanced one which at the end convert the less advanced on into “appendages or outposts” of the more advanced country if no protective measures are in place (Senghaas 1991, 453). It is not that List rejected the importance of specialization and free trade as instruments of economic development; rather, he believes protectionism is a transitional policy on a road which will eventually lead to free trade (Levi-Faur 1997a, 159-161). Therefore, this argumentation also underlies the challenge of protectionism to the cosmopolitanism that British hegemony tried to achieve internationally. Cosmopolitan free trade policy, List argues, is “far from being advantageous to humanity in general, would be to the sole advantage of the dominant economic nation” (Levi-Faur 1997b, 366). It is true that, in times of high demand for raw materials and agricultural products, there will be an economic growth based on the increasing demand of the more developed state, but the result is just a short-lived period of prosperity for certain class fractions (Senghaas 1991, 453). It would be ruinous for a nation to base its economic policy “on an unwarranted assumption of a state of perpetual peace” since the division of labour that was brought by the free trade creates a disharmonious power structure among the agricultural, commerce and manufacturing class fractions that drains a nation’s productive energies (Learle 1943, 434).

The role of the state in List offers a solution to both internal social cohesion and external competition over wealth and power. The division of labour envisioned by Adam Smith creates new interests, new social identities, and the deeper the specialization becomes, there is the greater disintegration of interests that will follow (Levi-Faur 1997a, 161). Also, this division of labour creates a political conflict between agriculturalists who support free trade and industrialists interested in protective measures for less developed countries (Senghaas 191, 458). List rejected the notion of the self-regulating market that came out of self-interest of individuals and argued economic nationalism acknowledged a connection between the self-interest of the individual and systemic interest of the state (Cohen 1991, 47). Even though List was not an ardent supporter of protectionism, he conceived protective tariffs “as a flanking instrument” of external economic policy which was intended to protect the infant industries (Senghaag 1991, 457). This would allow productive forces to expand further in the national context instead of solely relying on the import of agricultural goods and raw material and unify the interest of different class fractions. The role of the state in List’s conceptualization is that of “the protector of the national productive powers” (Levi-Faur 1997a, 166). In the case of unequal trade between developed manufacturing countries and the less developed agricultural country, the state should protect the developing manufacturers through protective means. Even though those tariffs would hurt the ability of agricultural and financial class fractions to accumulate more in a short period of time, it will greatly increase the productive powers of that country in the future (List 1838, 6). Moreover, state action is crucial in cases of conflict of interest between different class fractions (Levi-Faur 1997a, 169). For example, raising protective tariffs on the cotton products without using the income from those tariffs on the development of national cotton manufacture would create a clash of interest between agricultural and industrial interest as the decrease of the sale of raw cotton abroad could only be compensated by the increasing demand of cotton within the country.

All in all, the protectionist counter-hegemonic ideology that became rooted within the American and German political economy challenged the cosmopolitan free-trade ideology of the British hegemony after the 1870s. First, this counter-hegemonic ideology challenged the international division of labour that free trade ideology promoted based on two important problems. First, the trade relations between developed Britain and less developed countries resulted in a division of labour in which Britain sustained its industrial predominance whereas less developed countries expanded their power by increasing their ability to sell more and more agricultural stuff or raw materials. This situation sustained the power gap between Britain and other countries as long as both parties bilaterally agreed on the terms of free trade. Moreover, the protectionist doctrine argued that the free trade division of labour created fault lines between agricultural and industrial class fractions. Finally, protectionist ideology argued that the cosmopolitanism was nothing but a false premise to keep potential challengers powerless to defend their national interests. Instead, protectionist ideology, especially List, favoured state-sponsored colonialism which led to the era of 'Rival Imperialisms' as Robert Cox (1987) defines it. The decline of cosmopolitan free trade in Britain took place between the 1870s and 1910s which coincided with material financialization, the rise of neo-mercantilist ideology in the world. However, it was not until the disintegration of the free trade historical bloc in Britain that came out of the fierce class struggle that

British decline was finalized. While other states quit British led world order, British hegemony came to the parting of the ways when different class fractions tried to assume the leadership within the historical bloc and pursued their own interest. The first two sections of this chapter provide material and ideological challenge posed by external factors to the British hegemony, next section will explain the internal dynamics of the disintegration of the British hegemony and how British state was pivotal in the institutionalization of financial class fractions interests even though those interest hindered British power.

5.3. Institutionalization of free trade imperialism

As discussed earlier, hegemony in neo-Gramscian conceptualization "appears as an expression of broadly based consent, manifested in the acceptance of ideas and supported by material resources and institutions, which is initially established and supported by material resources and institutions" (Bieler and Morton 2004, 87). Neo-Gramscian theory of hegemony "does not take the institutions and social and power relations for granted but calls them into question by concerning itself with their origins and whether they might be in the process of changing" (Cox 1981, 129). In the previous two sections, this chapter discussed how the material and ideological power of the British hegemony declined and how this decline process was deepened with the outward financialization. This section will discuss how the decline in the material and ideological realms and the role of outward financialization in this decline was reflected in the struggle of different class fractions to change the institutional foundations of the British hegemony. Moreover, this struggle between financial and industrial social forces which previously constituted the cosmopolitan free trade historical bloc was the final phase of the decline of British hegemony. The role of the British state in this struggle was crucial as this research argues that unlimited support of the British state to the financial class fractions and maintenance of unilateral free trade policies against challenging protective tariffs all over the world deepened the financialization of the British economy.

The period between 1870 and 1914 witnessed the start of the erosion of the British economic lead that was maintained for almost a hundred years (Pollard 1985, 489). Within this period counter-hegemonic challenges to the orthodox economic theories produced a body of applied economic based on economic history that constituted a revival of neo-mercantilist economics in Britain (Koot 1993, 187). The struggle for the adoption of neo-mercantilist economic policies underlines the struggle between two different class fractions to assume power after the disintegration of the hegemonic historical bloc. While financial class fractions pursued unilateral free-trade imperialism that would protect both their financial prowess all around the world and their special privileges in the imperial subjects, industrial class fractions sought protection from foreign competition in the form of reciprocal tariffs and economic integration with the colonial subjects. The fact that the United Kingdom did not introduce a general tariff until 1932 clearly shows the outcome of the struggle between these two different interest groups. However, understanding the process instead of the result will allow this research to demonstrate how financial class fractions secure the support of the British state to sustain financialization even though financialization was against the overall interest of the society and British state. The ideological and institutional setting of the cosmopolitan free trade became almost "natural law" which became a key factor in the institutional struggle between different class fractions. Especially, economic decision-makers played a huge role in favour of financial class fractions and financialization. This chapter will discuss the crucial role played by economic decision-makers and those intellectuals who had a significant influence on those decision-makers.

The second half of the 1860s saw the start of an economic recession that fuelled calls for a return to protectionism and adopt "a policy of fair rather than free trade" (Mason 1996, 171). Economically there was no sign of an absolute decline as the national income and wealth growth, real wages, and the standard of living improved, the only visible effect of the economic recession was a fall in prices by about 40 per cent (Musson 1959, 199). The ideology directing the state policy in

Britain assumed that "the nation's decline has been due to the obstruction of the self-regulating market economy" (Elbaum and Lazonick 1984, 567). However, this assumption missed the fact that the economic downturn of Britain started due to the failure of British hegemony to answer international ideological challenges that had institutionalized in other states. Moreover, unlike the government approach, there was a growing mass of opinion in newspapers, pamphlets, parliamentary debates, commissions, committees that conditions were very bad. Feeling among the population who opposed unilateral free trade was that of losing control of the direction of their own industrial production. The direction of the industry was controlled by the statesmen of other countries, not British politicians because of the "encouragements which foreigners give to their own industries, and discouragements they place on the importation of our wares" (Cunningham 1904, 108). Policymakers and intellectuals, on the other hand, assumed that capital exports must have been beneficial for the British economy in the form of rising total income, therefore it was just natural for British capital to move outwards for higher returns instead of serving the domestic industry with the much-needed financial means.

The protective tariffs became a norm and institutionalized in the industrializing states because the statesmen and intellectuals of those states perceived cosmopolitan free trade of "the Manchester Men" as irritating and aggressive as "the British enterprise would flow past them to develop distant lands and establish British influence" (Cunningham 1904, 158). Institutionalization of protectionism in other states led Britain to "attempt to preserve existing free trade areas by extending formal control over them" (Ingham 1984, 121). This tendency led to a switch from cosmopolitanism to a new imperialist phase (Gamble 1990, 4). This phase underpins the struggle between free-traders and protectionists in Britain. While free traders led by financial class fractions wanted to control more territories by the power of British navy and foreign policy, industrialists sought a close relationship with the British imperial subjects. The institutional struggle over controlling British hegemony of different class fractions started with the Fair Trade movement. The Fair Trade movement started as the first anti-Cobdenist drive when the first fair trade pamphlet appeared in 1868 and became a nationwide phenomenon when the National Free Trade League was founded in 1881. Fair Trade League was a “group proposed a tariff on manufactured imports as retaliation against foreign protectionism and favoured the idea that the Empire should become a closed market area” (Ingham 1984, 157). The most important challenge that fair traders received during the 1870s came from Robert Giffen who started his career as a journalist and later appointed as Chief of the Statistical Department at the Board of Trade. A convinced free-trader, and with both contacts in the press and, in virtue of his position as a civil servant, access to the official statistics, allowing him to manipulate those statistics for his purposes, Giffen was able to influence and shape government and public opinion (Mason 1996, 171-2).

Fair traders opposed the unilateral free trade position of the government and asked for a policy of reciprocity of tariff treatment and favoured protectionist measures against those who raised tariffs against British exports (O’Brien and Pigman 1992, 105). Instead of fully-fledged protectionism what fair traders offered was a moderate tariff of 10 to 15 per cent upon all manufactures imported from foreign countries (Amery 1969, 209). Since Giffen could not risk his civil servant position by answering fair traders’ claims, he published a political paper on ‘New Protection Cry’ (1873), under the pseudonym Economist (Mason 1996, 173). Giffen attacked free traders claims on three different grounds: 1) he rejected the notion of reciprocity as it would only serve to encourage other states to retain their tariffs, 2) protectionist measures would only protect landowners and agricultural interests at the expense of social cohesion, 3) industrial interests would be harmed due to decreasing purchase power and increasing food prices (Mason 1996, 174). The solution that free traders offered to the increasing challenges from the protective tariffs was to improve efficiency or move to the production of other commodities as this was the only way in perfectly free market conditions. This ignorance of the changing economic conditions by the government had led to increase in industrial concentration and monopolization which led to a “widespread reappraisal of the once questioned belief in the [virtues] of rigorous competition” (Ingham 1984, 157).

League representatives testified before the Royal Commission on the Depression in Trade and Industry in 1885, and yet they were a minority in the commission while the majority considered foreign tariffs beyond British control (O'Brien and Pigman 1992, 105). The lack of government involvement in economics became an international issue for Britain when the protective tariffs against Britain became more aggressive.

The fair traders argued that the protective tariffs raised by the USA known as the McKinley Tariffs that were the highest tariff rates of the era with nearly 50 per cent for British exports led to further economic depression in Britain. For the Fair Trade League's founder W.F. Ecroyd, adoption of this tariff system "will probably hasten the decline of the Cobden Club" (Palen 2010, 398). These protective tariffs were intended to reduce British influence in Canada and Latin America and increase the interdependency of those regions with the United States. In response to the McKinley Tariffs, the growing sentiment was for Imperial Preference. Followers of the Imperial Preference was following in Huskisson's footsteps and aimed for closer economic bonds with the colonies on the premise of "whatever tends to increase the prosperity of the colonies cannot fail in the long run to advance in an equal degree the general interests of the parent state" (Huskisson 1831, 314). The problem with the colonies was the formation of the capital expansion as the colonies were trying to use the capital for the development of their infant industries and yet they were insufficiently supplied with capital (Cunningham 1904, 157). However, free traders believed that the Imperial Preference was "nothing but a cover for protection and privilege" for their supporters (O'Brien and Pigman 1992, 105). According to a cabinet paper prepared by Giffen, preferential tariffs to the imperial subjects would be detrimental to British interest as they would damage British re-exports and invisible earnings in the meantime those tariffs would raise the cost of raw materials and foodstuff and hence reducing both wages and profits (Trainor 1970, 70). Especially, Giffen's testimony to Royal Commission on Agriculture in 1894 was instrumental in persuading the government on the negative effects of protection as a means of "alleviating agricultural depression" (Mason 1996, 179). He used the statistics of increasing wheat and meat consumption and argued that this was due to the positive effects of the free trade that had been beneficial for all British society. Moreover, Giffen also used his reach in the press once again and tried to shape the public opinion with the four letters he wrote in the Times by using the statistics that he could have only by his position and privilege (Mason 1996, 177). Fairtrade movement lost some momentum with the improvements in the economy as Giffen predicted, and by the end of the 1890s, the focal point of the debates on protection shifted from fair trade to imperial protection.

By the beginning of the 1900s protectionist movement required the sponsorship of the major political parties as there was a clear absence of a close institutional relationship between industry and the state (Ingham 1984, 158). And Joseph Chamberlain was the champion of both protectionism and the Empire that fair traders and imperial tariff supporters needed dearly. Hicks Beach, Chancellor of the Exchequer, was one of the first government members that realized the 40 per cent growth in the rate of expenditure between 1895-1902 could not be maintained (Amery 1969, 8). He had to choose either increasing direct-taxes or imposing new duty revenues and when he introduced the budget on 14 April 1902 he offered the revival of Corn Duty (Amery 1969, 9-14). This development stirred debates between free trade and protectionism once again. Free traders argued that the duty would serve as a direct attack against free trade, and even Harcourt condemned the duty as a tax on "the first necessity of the food of the people" (Amery 1969, 14). The institutional struggle between protectionists and free traders were caught in between the issue of foodstuff. Beach's small duty on corn and grain were to be removed later in 1903 but its effects on British politics were critical as it had some way led Joseph Chamberlain's Tariff Reform Campaign.

Joseph Chamberlain the Colonial Secretary started his campaign with the quote of 'Save the Empire' in his Birmingham speech of May 15, 1903 (McCready 1955, 259). One week later this meeting the Tariff League was launched by some M.P.s and three thousand manufacturers to promote preferential trading within the Empire and rearrangement of the Empire's fiscal duties (Mason 1996, 182). The Tariff

Reformers argued that Britain's unilateral free trade stance was no longer sustainable in a world economy in which most countries had adopted protective tariffs. What Tariff Reformers envisioned was more than a mere economic integration with the colonies or protective tariffs to save British industry against foreign competition but a political philosophy which aimed at a self-sustaining and self-sufficient Empire that would endure even against the competition of all its rivals (Amery 1969, 192). To achieve this end, they attacked the very basis of the cosmopolitan free trade: individualism. They envisioned a society, not for the interests of individuals that would have every opportunity to accumulate wealth, but "to make Britain and her Empire as powerful an instrument as possible for the furtherance of her rulers' policies" (Amery 1969, 200). Chamberlain asked J. W. Ashley a prominent academic to write reports and academic pieces about the progress of the German working classes to show how protectionist policies in Germany improved working-class conditions with a successful combination of increasing productivity and social reforms (Amery 1969, 291). Chamberlain understood the fact that he needed the mass support of the working classes and to enmesh their interest within the interests of the industrial class fractions. However, free traders also realized the importance of popular support for their case.

Attacks on Chamberlain's movement focused on only its protectionist basis, not its imperialist tendencies. Giffen, who was one of the leading attackers on the earlier protectionist movement, was a supporter of a closer relationship with colonies. Yet, even though he retired from his civil servant position he still had close relations with the press, and he was able to shape public opinion through the *Times*. The mainline of his and other contemporary's argument focused predominantly on the negative effects of the protectionist measures on the agricultural prices. Alfred Marshall, a prominent economist whose ideas had an important effect on the politicians and government officials were still convinced of the policies of Cobden. He wrote to Free Food League in 1903, protection would do more harm after all those years of free trade, and free trade was "of more vital necessity now than when it was first adopted" (McCready 1955, 260). The strength of the free trade bloc was the public opinion which was convinced that they owed their ever-increasing prosperity to the success of the free trade system. Especially, free trade was believed to provide the cheapest available food and consumer goods which kept both wages low and purchasing power high (Amery 1969, 220). Alfred Marshall suggested to the members of the British government at that time to write to a German colleague about Chamberlain's reform; "I do not fear that [Chamberlain] will succeed in bringing about an effective dear-food-treaty with our colonies" (McCready 1955, 262). Following Marshall, fourteen eminent professors signed a letter to *the Times* condemning the new policy; "We think that any system of preferential tariffs would most probably lead to the reintroduction of Protection into the fiscal system of the United Kingdom. But a return to protection would, we hold, be detrimental to the material prosperity of this country" (Amery 1969, 291). Press and academia in Britain were divided into two different camps over shaping the public opinion as the institutional struggle in Britain turned into an electoral struggle with the 1906 election.

For Chamberlain, it was the Preference that mattered the most compared to the Protectionist and Retaliationist parts of his program (Amery 1969, 356). The preference part of his program included a colonial agreement on foodstuffs that might increase the food prices in Britain. Furthermore, Chamberlain's programme lacked a discussion of how the world economy would function as what he envisioned was a one united Empire that would act like a single state that could face challenges posed by the USA and Germany. However, there is no evidence that this reform movement confronted "the notion of British responsibility for maintaining an open trade regime for the world economy as a whole" (O'Brien and Pigman 1992, 106). This was a critical issue as there were some free trade hardliners like Giffen who were also considering closer ties with the Empire, yet afraid of Chamberlain's stance towards duty taxes and food prices. Chamberlain also failed to convince his own party members when he admitted that preference could mean a tax on food when more than fifty members of his party declared themselves opposed to any change in the fiscal system (Amery 1969, 355-6). The division within the Government, on the other hand, became fiercer when Prime Minister Balfour tried to accommodate Chamberlain and other free traders to find common ground. When both free trade supporters and Chamberlain threatened to resign from the government, Balfour tried to ensure support of the free traders to the Chamberlain's new policies and move the government away from orthodox free trade policy if only Chamberlain's policies would not increase the cost of living (Amery 1969, 360-366). Chamberlain also tried to persuade free traders especially the Duke of Devonshire about the fiscal reform that aimed to reform the redistribution of the taxation and yet Chamberlain failed to convince the Devonshire that his policies were not aimed at full-fledged protectionism. The division within the government was finalized when the free traders jointly presented their resignations from their government positions while Chamberlain also wanted to resign and seek mass support instead of trying to work out his way within the government. He realized that it would not possible to change the institutional structure without having the backing of mass public support.

1906 elections resulted in a landslide victory for free trade supporters. The Unionist Party stood on the tariff reforms, while the Liberals had been persuaded the voters that there would be an increase in the food prices if Chamberlain successfully imposed tariffs on foreign goods (Mason 1996, 184). Moreover, public opinion was convinced by the intellectuals' views about this reform movement was for the interest of a privileged minority and make a great deal people poorer (McCready 1955, 264). The Treasury had been at the centre of Chamberlain's opposition to maintain "the reproduction of the existing political and economic order" by providing reports in which statistical data were selected to support the case of free traders (Ingham 1984, 159). Chamberlain failed to alter the perception fuelled by the Treasury/Press/Academia in the eyes of the public. 1906 elections also illustrated the failure of Chamberlain's effort both in the Parliament and in the public. In addition to the efforts of free traders, Chamberlain failed to "build up a compromise platform"(O'Brien and Pigman 1992, 106) between free traders who were sympathetic to establish closer ties with the Empire and industrialists who were not seeking hard-line protectionism but seeking protection from German and American dumping. Even though free trade lost its cosmopolitan touch, free traders managed to preserve the historical bloc by forming a broader coalition of financial class fractions, export industries that did not need protection, and working classes that had concerns over their living standards and old-age pensions. “[Free Trade] became the enduring British ideology and continued to exercise a hold over the popular mind long after its rationale passed away” (O’Brien and Pigman 1992, 107).

To conclude, the cosmopolitan free trade world order which underpinned the success of British hegemony failed to reply to the protectionist challenges of Germany and the USA. However, in Britain cosmopolitan free trade historical bloc managed to sustain “the institutional means for the safeguard of economic order by which the dominant class prospered remained unshaken” (Ingham 1984, 162). The failure to bring institutional change was the result of the failure of the protectionist counter-hegemonic movement in Britain. Free Trade historical bloc managed to ensure social cohesion by reconciling free trade and imperialism in a new aggressive policy that managed to secure interests of financial class fractions, export industries, and working class. Cobden’s aim to disassociate Britain from the Empire and reduce the burden of the colonies was reversed by the 1870s. Both protectionists and free trade camps aimed at imperialism but in different forms. While free traders tried to institutionalize an informal empire that would ensure some economic benefits, protectionists were keen on integrating colonies into a more formal Empire. After the 1870s Britain’s “volte-face to unilateral free trade can be criticized as a mistaken and unnecessary surrender of hegemonic authority” which was “quite independent of economic decline arising from the industrialization of other states” (O’Brien and Pigman 1992, 133). Rather, this decline was the result of both internal and external hegemonic struggles that have arisen from outward financialization. Outward financialization, on the other hand, was the result of material, ideological, and institutional struggle that cosmopolitan free trade historical bloc had faced.

5.4. Outward financialization and the decline of British hegemony

Hegemony in neo-Gramscian conceptualization "appears as an expression of broadly based consent, manifested in the acceptance of ideas and supported by material resources and institutions, which is initially established by material resources and institutions" (Bieler and Morton 2004, 87). The period between 1846 and 1870 witnessed the apex of British hegemony that was characterized by cosmopolitan free trade. The underlying ideology of the British hegemony was that of "commerce was the source of blessing to our race, the bond of nations and the firstborn peace" (Platt 1968). During this period Britain had the power to change the economic and political discourse within "those states not only to do what Britain wanted but also want what Britain wanted" (O'Brien and Pigman 1992, 112). This hegemonic power of Britain allowed British hegemony to expand and establish a world order based on an uninterrupted free trade system. The material underpinning of this free trade world order was the expansion of the British capitalist-credit system in which non-productive capital transformed into productive capital and expanded worldwide by the British trade cycle. This expansion became "the common interest of all capital" (Hilferding 1981, 343). The material basis, the trade cycle and foreign capital investments that promoted by the finance capitalism during the 1840s, provided free trade historical bloc an opportunity to assure the British monopoly on the world market (Hilferding 1981, 310). British monopoly in the world trade assured by commercial treaties with other states allowed British merchants to flood foreign markets with the industrial goods produced by the British manufactures and in return provide cheap raw materials and foodstuff for the British industry and public. However, this material, ideological and institutional conditions created resistance and counter-hegemonic movements nationally and internationally and led to a hegemonic struggle that would end with the disintegration of the cosmopolitan free trade historical bloc and the end of free trade world order.

At the end of the 1840s cosmopolitan free trade historical bloc was fully institutionalized in Britain and was able to start its expansion abroad and create a world order based on the functioning of uninterrupted free trade and a stable gold-standard. The promise to redeem sterling banknotes for gold transformed British national currency into world money (Ingham 1984, 101). The stability that the gold-standard provided allowed financial class fractions to safely export capital abroad and safely finance trade by providing foreign countries the necessary amount of sterling to buy more British manufactured goods without contradicting cosmopolitan free trade ideology (Helleiner 2002, 315). Material expansion of British hegemony was based on the trade cycle which allowed cosmopolitan free trade historical bloc to unite the totality of the capitalist interest in Britain. Material expansion in the form of railway expansion was the underlying productive accumulation regime which was beneficial for different class fractions as well as for the British state. This trade cycle and further implementation of free trade around the world by the bilateral commercial agreements that further institutionalized British led free-trade world order allowed Britain to increase its imports by almost 4 per cent per year for 40 years after 1840 and national income for 1.84 per cent (McClosky 1980, 310). British GNP doubled in those 40 years and Britain's share of the world trade rose to 25 per cent of whole world trade (McClosky 1980, 311; Krasner 1976, 346). However, the foundations of the German and American counter-hegemonic movements based on a protectionist ideology that had been formulated long before the 1870s but institutionalized after the 1870s not only in those countries but expanded to other countries as well and challenged British hegemony in the world.

The ideological underpinning of counter-hegemonic movement was based on protectionism. However, this is not a universal protectionist idea based on economic assumptions only. Rather it was targeting British hegemony as once List accused Britain's attempts of preserving universal free trade as 'kick away the ladder' for those countries that to enjoy the fruits of industrialization (Selwyn 2009, 159). The protectionist counter-hegemonic movement was not directly rejecting the benefits of free trade, rather it was a British cosmopolitan free trade system that aimed to preserve its role as "sole producer of high value manufactures" (Selwyn 2009, 159). Hence, counter-hegemonic movements in the world focused first on protecting their own industrial base from British manufactures and create a national economy. The second phase of the counter-hegemonic ideology was the rejection of cosmopolitan ideas in the world. The construction of the national economy proceeded in and through an imperial division of labour in which the mother country exchanged manufactures for the raw materials and agricultural products from its colonies (Ince 2016, 393). This geographical division of economic spheres of the world was seen to be the result of natural order and more developed countries had responsibility for civilising those who are not developed (Tribe 1988, 33). Supporting protectionist sentiment, empirical evidence suggests that while free trade hurt less developed countries such as France, Germany, and Italy, its effects on the developed United Kingdom was remarkably positive (Bairoch 1972, 211). In 1870, British exports supplied about a ninth of the rest of the world's demand for manufactured goods (McClosky 1980, 317). To overcome British predominance in the world economy, this counter-hegemonic ideology became institutionalized within challenging states in the form of protectionist tariffs.

As a result of the institutionalization of the protectionism from 1870 to 1913, Britain's share of world industrial production fell from 31.8 to 14 per cent while the United States expanded its share from 23.3 to 35.8 per cent (Bhagwati 1988, 66). Protectionism damaged Britain's industrial productivity and as a result, the British industry lacked the tools to compete with ever protected competing foreign industries. While Britain generated less income from productive exports, financial class fractions started to pursue non-productive means of accumulation. This situation created a fault line between the components of the cosmopolitan free trade historical bloc. There was a growing resistance against cosmopolitan free trade within Britain itself. On the one side, there was a growing protectionist imperialist that was supported by most of the industrialists, landowners, agricultural producers who would like to raise preferential tariffs for the colonies and protect both colonial producers and British producers from the devastating effects of the protectionist tariffs and respond to the flood of foreign industrial goods on British domestic market by using export subsidies. Free traders, on the other hand, gave up on cosmopolitanism as they came to realize that other states would not follow up on a peaceful free trade regime. However, they clung to the free trade as it was the most suitable ideology to sustain and expand their foreign investments and commercial interests. Therefore, they added a touch of imperialism to their understanding of free trade which included “pre-emptive annexation and the outright delimination of spheres of interests and influence in the interests of commerce and finance” (Platt 1968, 306). Coercion which ranged from military intervention to the threat of using force was used to open up Third World Markets (O’Brien and Pigman 1992, 103). Reducing the role of government on the economic matters after the 1840s came about to an end by the 1880s. Maintenance of the free trade system required a heavy government involvement without which money class efforts to accumulate by using non-productive means would be futile.

The rise of free trade imperialism in Britain went hand in hand with the financialization process. Foreign challenges to the productive base of Britain had led to the disintegration of the capitalist interest in Britain which was previously epitomized by the cosmopolitan free trade. However, after cosmopolitan free trade failed to respond to the ideological and institutional challenges, monetary and productive interests were diversified. Between 1870 and 1914 cosmopolitan free trade was replaced by the free trade imperialism in Britain while internationally protectionism and imperialism were the norm. Throughout the period, the UK government faced strong pressure to change its commercial policy in response to external developments (O’Brien and Pigman 1992, 104). During this period there were numerous attempts of the counter-hegemonic movements of the protectionists to replace free trade in Britain. However, neither of these movements was successful because of the role of the British State, Press, and Academia. On the other hand, financial class fractions realized that a unilateral free trade policy that was reconciled with imperialism with the addition of gold-standard that was the safeguard of their foreign investments had to be protected by the state policy. They were successful in interrupting counter-hegemonic movements because they had the support of civil servants within the state structure, support of the Press to shape the public opinion, and the support of the intellectuals in Academia that was key to create the discourse to attack the counter-hegemonic movements. These developments led to outward financialization of the British economy and the decline of British hegemony.

Outward financialization of the British economy involved a process in which the material expansion of British hegemony by productive means that previously unified the totality of the capitalist interests in Britain to transform into a non-productive accumulation regime over productive ones as the result of the division of interests of monetary and productive class fractions. While the material expansion of British hegemony involved with finance capitalism that allowed non-productive capital to employ for productive ends and expand British hegemony over other countries, outward financialization involved the expansion of non-productive money capital to be employed productive ends of foreign countries at the expense of productive class forces in Britain. Outward financialization of the British could best be observed with the immense increase of British foreign investment from 4.6 billion dollars in 1874 to 18.3 billion dollars in 1914 (Krasner 1976, 347). Apart from this increase, the type of investments shows us the real reason why outward financialization led to the decline of the British economy. Almost all of the British foreign investments took the form of portfolio investments in which British capital assumed no managerial control over their investments which means British foreign investments fuelled further the economic development of the other countries not just by providing the necessary capital but also the managerial independence. These investments in addition to the protectionist tariffs and export subsidies further undermined the productivity and profitability of the British industry. Gold-standard was the other reason behind the outward financialization and decline of the British economy. First, gold-standard ensured monetary stability for the non-productive money capital for expanding their investments. In addition to its positive effect on the increase of the outward movement of the British capital, it hindered the ability of the British state to "provide an artificial stimulus to production by expanding the money supply or depreciating the currency" in times of economic depression (Helleiner 2002, 315).

Outward financialization provided material prosperity for the financial class fractions as well as the British state until 1914. Unilateral free trade resulted in a small reduction in the national income, but it altered the dominant accumulation system as well as how the wealth is distributed within the society. As a result, social cohesion provided by the cosmopolitan free trade waned and resulted in a further escalation of the hegemonic struggle between different class fractions. Moreover, the role played by the British state allowed financial class fractions to enjoy more autonomy which at the end undermined the power of the British hegemony internationally. The management of the gold-standard was vital for the financial class interests not solely for safeguarding the portfolio investment but also the transformation of non-industrial capital into international commercial activity for higher returns. Mercantile credit, insurance, currency dealing, commodity brokerage, and foreign investment led to the independence of the British money capital from domestic production (Ingham 1984, 6). As outward financialization intensified, domestic productive capital had a hard time to find necessary capitalist credit to compete with foreign industrial productivity. As a result of outward financialization, industrial interest became subordinate to the financial interest. While previously expansion of the British hegemony had unified capitalist interests within a concrete historical bloc, outward financialization led to the decline of this historical bloc.

Finally, the cosmopolitan aspect of the British hegemony after 1846 allowed British hegemony to operate internationally without shouldering huge maintenance of the system. However, replacement of the cosmopolitanism with imperialism after the 1870s increased the maintenance cost of the free trade system for British led world order. Even though Britain successfully maintained a free trade regime until 1932, after 1870 national and international energies against free trade regimes had huge maintenance costs. Before the 1870s, British hegemony expanded internationally by using mostly consensual means and other states not only followed British leadership, they also wanted an international cosmopolitan free trade world order. However, after 1870 the maintenance of the free trade imperialism required occasional use of coercion or threat of coercion. As we have seen in the case of the

Boer War, Britain had to use coercive measures to protect financial class fractions interests and allocate a considerable amount of material power for it. This switch from consent to coercion clearly shows that British hegemony had declined after experiencing outward financialization from a neo-Gramscian vantage point.

Chapter Six: Rise of Fordism and the Liberal internationalist historical bloc

The main aim of this thesis is to understand the relation between financialization and the decline of hegemonic powers. The mainstream approaches that have focused on financialization and its effects on the decline of hegemonic powers, expect the same trajectory for all hegemonic powers that have experienced a period of financialization. Most notably, those studies expect the decline of American hegemony after the 1970s which is coincided with its financialization period based on the historical circumstances British hegemony faced after the 1870s. However, these accounts of financialization and decline of hegemonic powers downgrade financialization into an economic technicality that ignores the role of class struggle in the making of financialization as well as its immediate results on the social relations of production and world order. This research, on the other hand, challenges the assumption of "financialization leads to decline", and argues that what American hegemony had experienced after the 1970s was different than the outward financialization that British hegemony had experienced after the 1870s. Rather, the structural changes that American hegemony experienced during the 1970s best be conceptualized as 'inward financialization' that sustained social cohesion among different class fractions that had formed a hegemonic historical bloc. Moreover, this research argues inward financialization successfully responded to the challenges posed by other states and expanded newly forged hegemonic world order to the rest of the world. Critically, unlike the British case, this research argues that the role played by the state structure in the American case was decisive in the successful expansion of the hegemonic world order sustained by the inward financialization.

This chapter aims to unravel the configurations of social forces that have resulted in the rise of American hegemony. The class struggle of different class fractions to attain social hegemony between 1919 and 1946 was decisive in terms of an understanding of material basis, ideological aspects, and state formation. After

1946 social hegemony achieved by the liberal internationalist historical bloc and the welfare state expanded internationally and formed a liberal internationalist world order that remained unchallenged until the 1970s. Understanding the rise of American hegemony nationally and internationally within the material, ideological, and institutional realms are crucial as the developments in each realm had its own ways to shape the financialization period.

The chapter consists of three parts. The first part of the chapter focuses on the material rise of the American hegemony. This part specifically focuses on how the new mode of production gave way to a new social relation of production in the USA between 1900-1946. The second part will focus on the ideological underpinnings of this new mode of social relations of production. The third and final part of the chapter will discuss how this mode of social relations of production had institutionalized within America and further expand and institutionalized and established world order.

6.1. Economic Change

6.1.1. Reconfigurations of social forces and the birth of the Fordist mode of production

As discussed earlier in the conceptual chapter, the rise and decline of hegemonic powers in neo-Gramscian conceptualization are rooted within the change in the social structure that is gradual and “has always taken place in the past, conditioning agency in the present” (Bieler and Morton 2001, 21). Even though the development of Fordism as a mode of production is dated back to the start of the twentieth century the conditions that resulted in the rise of Fordist mode of production is dated back to the reconfigurations of social forces during the American Civil War. The class struggle between financial and industrial class fractions of Northeast America against the dominant agrarian interest of the South. Agrarian class fractions in the USA back then were divided into two distinctive forms. While the agrarian society in the South based on cotton plantation slavery which was economically profitable, the West was the land of free farmers. Even though the sheer numbers of the Southern slave planters were considerably low compared to the farmers of the West and industrialists of the Northeast, they had a strong grip on the state power. From 1840 to 1865, Britain imported four-fifth of its cotton demand from the Southern States (Moore 1966, 116). This volume of trade between the American South and Britain created a mutual interdependency between these two sides and united their interests around the policy of free trade. However, British material expansion also helped the Northeast became a manufacturing region which ended the dependence of the American industrialists to the agricultural class fractions. Moreover, industrial class fractions wanted to break the influence of the agricultural class fractions on the American state structure. They wanted protective tariffs, a central banking system and sound money to sustain necessary capital to fuel industrialization (Moore 1966, 125).

The North emerged from the American Civil War as victorious. This victory had important ramifications for the reconfigurations of social forces in the USA. First, the war fostered economic growth in the USA, most notably industrial growth. Industrial growth was 6 to 7 per cent a year from 1869 to 1910 (O'Brien 1988, 50). The increased domestic demand fuelled by the war involved maturing of the industrial production, particularly heavy industry by the increasing application of the factory system (Hacker 1940, 249-52). In order to meet the heavy demands generated by the war ever-larger capital, outlays were required by the industrialists to employ factory system and large-scale organizers were in the position to "tap the reservoir of credit" (Scheiber 1965, 399). This concentration of capital in the industry was further increased with the two major economic crises, one during the 1870s and the other in the early 1890s. These crises intensified the competition between different small firms and as they need to increase their fixed capitals to increase their productivity and thus profitability, many firms merged and formed big cartels and trusts (Duménil and Lévy 2001, 582). This reconfiguration of social forces resulted in the centralization of manufacturing capital in fewer hands than before, the construction of larger plants (Cochran and Miller 1942, 113; Cox 1987, 158). "Finance was at the centre of the new economy, controlling credit mechanisms and, thus, the issuance of money" (Duménil and Lévy 2001, 582). This restructuring of social relations of production under the aegis of capital in large scale industry also involved a transition from traditional workshop production to assembly line which completely changed the nature of the work. Taylorist mode of production involved a managerial reorganization of the production process in which "the control of the work was taken out of the hands of skilled workers and to fragment work into several simple operations that could be performed by unskilled persons" (Cox 1987, 160). "The distance between the workers and their means of production again widened, their tasks being defined by other salaried personnel" (Duménil and Lévy 2001, 582). Fordist mode of production followed the Taylorist mode of production.

In its very beginnings, Fordist mode of production was merely the extension of Taylorist rationalization from the single labour processes to the assembly line within a big factory which proved to be a powerful method to increase productivity (Altvater 1992, 20). Fordist production is

> typically based on a technical division of labour which is organized along Taylorist lines, subject … to mechanical pacing by moving assembly line techniques and organized overall on the supply-driven principle that production must be unbroken and in long runs to secure economies of scale. (Jessop 1992, 42).

However, Ford's production revolution was more than a technological revolution as it also involves a revolution in the social organization of production which relies on less-skilled workers because of the fragmentation of tasks and standardization of components (Clarke 1990a 138). The fragmentation of the work process meant that "production bottlenecks were clearly and immediately identified, providing well-defined technological and/or organizational problems" that hindered further increase in productivity (Clarke 1990b,3). This situation created a special relationship between industry and academia, in which industrialists funded American universities to research those problems in production processes. As we will observe in the ideology section, this relationship later used as an ideological justification of the suppression of labour for the sake of productivity. Hegemony in the US was "born in the factory and requires for its exercise only a minute quantity of professional political and ideological intermediaries" (Gramsci 1971, 285). "A hegemonic politics of productivity, with far-reaching implications for world order, was produced along with the system of mass production in the USA" (Rupert 1995, 61).

Productivity became the hegemonic policy within which the mass production of industrial goods became the dominant accumulation regime. "As an accumulation regime … Fordism involves a virtuous circle of growth based on mass production and mass consumption" (Jessop 1992, 43). In this accumulation regime labour held more power than previous production methods. The leverage that labour had was twofold. First, the basis of this accumulation regime was to push prices of the manufactured goods as low as possible with the mechanization of the production and increase buying power by ensuring higher wages to the working-class and transform them into consumers of mass-produced goods. The material sustainability of the system depended on the labour who had to be mass consumers and ensuring that it requires increasing purchasing power. Secondly, unlike Taylorist production techniques, Fordism bonds the individual labours into a human-machine to sustain cohesion between different units of production (Clarke 1990b, 6). This cohesion at the end is required to ensure the fluidity of the production process which yielded immense productivity but also increased the power of the labour over the production process. This *control* was sustained by a successful combination of coercion and consent. This struggle between industrialists and working-class fractions became crucial in the further development of Fordist social relations of production, as labour transformed into consumers that fuel the growth of mass production any action that resulted in decreasing their wages threatened the growth of the industrial cycle as well.

Fordist mode of production required managerial involvement not only of the immediate production process but also producing raw materials and marketing the produced output by the same firm (Siegel 1988, 5). Producing its own raw material and marketing its own output required a level of internationalization of production. However, internationalization of production requires removal of obstruction on trade which was still a big divide between the Northern and Southern interests and this struggle characterized itself within isolationist and internationalist debates that had important implications to the material rise of American hegemony. Tariff protection was not necessary for Fordist manufacturers as the productivity level of the Fordist manufactures surpassed other advanced industrial nations by far. Moreover, agriculturalists in the South were traditionally free traders and against protection. However, most of the manufacturers relied heavily on the previous mode of production and crafts labour in the US were critical about removing tariffs as their production processes were not as competitive as Fordist manufactures. Finally, unlike British foreign investments, American foreign investments had involved direct managerial control of their own investments. Moreover, corporate expansion depended on reinvestment of enterprise rather than relying on financial class fractions, and “money is fiduciary and national in character rather than an international commodity” (Jessop 1992, 44).

The period between 1900 and 1919 marked the birth of the Fordism. The centralization and concentration of the capital after the civil war was so effective that over 4,200 firms were combined into 257 and by the beginning of the century, 318 American companies owned almost 40 per cent of the entire nation’s manufacturing assets” of which “almost 30 per cent of the companies that made up the Fortune 500 list in the 1990s were founded between 1880 and 1910” (Panitch and Gindin 2012, 28-30). This shows how important industrial growth for the material expansion of the US and industrial productivity became the motor force of this expansion. While in 1870, the level of aggregate labour productivity in the US and the UK was quite similar, with the adoption of the new mode of production the US established a lead by 28 per cent over the UK (Abramovitz 2002, 203). As a result, the US share of the world production reached 36 per cent by 1913, which was over two- and one-half times that of the UK or Germany two other most industrialist nations (Maddison 1982, Table 3). The new mode of production had revolutionized not only production but also had led the creation of mass consumption which was the necessary condition for the material expansion of the Fordist mode of production. Henry Ford’s innovations pushed the price of a Model T car down from $700 to $350 between 1910 and 1916 while other prices rose 70 per cent (Frieden 2006, 62). As a result of this price revolution of consumer goods, per capita GDP of the US exceeded that of the UK by 20 per cent, France by 77 per cent, and Germany by 86 per cent (Abramovitz 2002, 213).

Moreover, concentration and centralization allowed industrial class fractions to have the necessary funds for investing further for the Fordist mode of production without capitalist credit function of the financial class fractions. The financial system of the US that had been set up during and after the Civil War transformed financial intermediation into a "highly dynamic, speculative and therefore volatile" one up until the establishment of the Federal Reserve System (Konings 2008, 53). Moreover, the national banking system that had established after the Civil War "effectively brought the Treasury into a central position within the New York money market" (Sarai 2008, 74). As non-productive accumulation was their only option, financial class fractions were "in a position to extend credit across the board, including unsecured and illiquid personal debt" which was "a much more expansive basis for credit extension of credit to short-term, well secured mercantile transactions" (Konings 2008, 52). In 1907 this volatile and speculative financial market crashed and resulted in a drop of GDP by 11 per cent in the US that had further escalated withdrawal of European investments from New York financial markets (Panitch and Gindin 2012, 42). To prevent further escalation of the crisis Treasury asked the help of famous New York banker J. P. Morgan who called other Wall Street bank presidents and demanded the necessary funds to provide the necessary liquidity to calm the markets (Panitch and Gindin 2012, 42-3). The structure of the Federal Reserve System and the role of the J. P. Morgan as the representative of the private financial institutions characterizes the "fusion of financial and government power" (Chernow 2010, 131). This compromise is based on the Fed's structure as both "an arm of government that could perform public functions" and "as an institution that channeled and was answerable to the 'expertise' of corporate America" (Newstadt 2008, 94-5). However, with the outbreak of the First World War, this compromise had been undermined by the increasing role of private finance in funding the war.

Up until the 1900s tariff protection allowed the redistribution of the wealth accumulated in the US taking some portion of the income from southern plant owners to northern industrialists and helped them concentrate more capital that had fueled the establishment of the Fordist mode of production. However, after the 1900s tariff policy became irrelevant because rapid industrialization of the US did not require protection from foreign competition as it “was the product of domestic economic processes” (Bensel 2000, 461). However, the tariff policy still was a popular and central issue in the class struggle, and governments were keen on using the distributive effects of the policy. For example, a substantial portion of the side payments of the government was done to sheep raisers and Union veterans that had nothing to do with the economic development of the nation (Bensel 2000, 463). As industrialists were unable to pursue the government for lowering tariffs, they focused on the integration of the domestic market. The US had an extensive railway network that had complemented by the new mode of production as Fordism enabled the use of extensive vehicles for transportation. Since the American domestic market was large enough this contradiction between national/international interest was not that powerful. And with the outbreak of the WWI, the class struggle between different class fractions cease to exist as the war provided them to expand their material interest further.

6.1.2. Material expansion of the Fordist mode of production and the First World War

Material expansion of Fordist mode of production realized through the growth of mass production of consumer goods that were not available for the majority of the society. Especially, the Fordist mode of production put the motorcar within the reach of the majority of the population as the output of Ford went from 34,000 cars in 1910 to 730,000 in 1916, when the country as a whole turned out over 1.5 million cars (Frieden 2006, 62). This development created alternative transportation within the country that had to compete with railroad transportation. The road transport by motorcars characterizes the material expansion of the American hegemony, just like railways characterizes British material expansion. As we have seen in the previous chapters the growth of the railways had been an important facet of the material expansion of British hegemony and resulted in the concentration and centralization of the productive and non-productive capital around the single capitalist interest. However, even though this expansion through railways had opened the mass market, "the rigidity of railway transport confined such opportunities to the largest corporations" (Clarke 1990b, 11). The development of road transport thanks to the Fordist mode of production altered the monopolized control of the largest corporations as it allowed smaller producers with access to new mass markets. "The growth of motor transport extended the revolution to the countryside, integrating the most remote hamlet into the single framework of capitalist reproduction" (Clarke 1990b, 12). This integration was key to the formation of the hegemonic historical bloc as the struggle between rural South and industrial North had still been the main obstacle for the unification of the interests of different capitalist class fractions.

Price stability and control of inflation were crucial for further expansion of the Fordist production and the gold standard would ensure those. The gold-standard became a major fault line between different class fractions during the material expansion of Fordism. Because there was a direct conflict of interest between the farmlands and mining regions of the South, Midwest, Great Plains and West, and the factory owners, merchants, and bankers of the Northeast and industrial Midwest (Frieden 2006, 115). First reason of this conflict of interest stemmed from price stability, as any increase in the prices of foodstuff directly decreases the purchasing power of the working class who now become consumers of the good produced by the industrialists. This situation also had led pressure from workers to their industrialist employers for more wage against this inflation. Secondly, monetary class fractions relied on a functioning gold standard for sustaining their international reputation as the countries on gold standard were committed to keep their national economy fit into their international responsibilities. The most common way to adjust national economies that adhere gold standard was to push the labour's wages down and push the prices of the industrial output down until the production processes got productive, competitive and profitable in international trade. However, in the Fordist accumulation regime, low wages mean low consumer demand. Technological and managerial changes that Fordist accumulation regime presented, allowed industrialists to push down the cost of output per unit without reducing the wages of labour and in a way sustained its own reproduction without relying on the outcome of monetary actions of the state. Therefore, both industrial class fractions and monetary class fractions relied on laissez-faire state of the classical liberal economy that was not interfere with the market conditions to sustain their material expansion.

With the start of the First World War the US experienced one of the most profound changes in the regulation of national economy. When the First World War forced the rest of the world, especially Europe to rely on American industrial and agricultural production and public and private finance during wartime. In less than three years of the war, American exports more than doubled, and manufacturing production tripled between 1914-1919 (Frieden 2006, 130-2). This increasing demand had led to a switch of production from civilian consumer goods to munitions and armaments. In this period unemployment declined from 7.9 per cent of the labour force in 1914 to 1.4 in 1918 (U.S Bureau of Census 1975, 135). In the meantime, the purchasing power of the labour increased by 6.6 per cent while their working hours in the non-farm sector decreased by 6 per cent (Rockoff 2004, 7). The United States was transformed from a debtor to a creditor nation as the Britain had to sell more than half of its investments in the US to be able to pay for American armaments and munitions. New York began to replace London "as the fulcrum of the global economy" (Borrows and Wallace 1999, 1236), as the "bulk of the war effort (58 per cent) was financed by borrowing from the public" (Rockoff 2004, 8). The tremendous borrowing demands of the government pressured the FED to join the war effort by abandoning an independent monetary policy to support the inflationary financing of the war (White 1983, 118).

The experiences of the war and how those experiences played out at the end of the war were crucial understanding the hegemonic struggle of different class fractions and the role of the American state in this struggle. First, the most important wartime policy was the increasing control of the economic activities by the government. This experience of war planning exerted a permanent influence on the thinking of not only the economists and the engineers who were an active participant of those plans, but also intellectuals, politicians, and many businessmen were influenced by the success of the wartime planning (Soule 1947, 62). However, this view became dominant only with the devastating effects of the Great Depression (Rockoff 2004, 22). The contradiction between those who seek active government participant and no government involvement in the realm of economy had been of the importance. Secondly, there was a cleavage between internationalist and isolationist ideas in terms of American involvement in international matters. During Paris Peace Conference, Wilson called for the removal of the all economic barriers and equal trade conditions (Frieden 2006, 132-3). This urge represents the strong impact of the Fordist mode of production that had experienced its peaks during the war that was an outward expansion. However, Wilson failed to pursue the U.S. Senate to ratify the Versailles Peace Treaty and furthermore refused to allow the US to join the League of Nations which aimed to revive a liberal international order (Panitch and Gindin 2012, 45). These two important cleavage isolation/internationalization and government involvement/free-market conditions marked the contours of the hegemonic struggle. The next section will discuss the Great Depression and how this hegemonic struggle between different class fractions was affected by this first crisis of Fordism.

6.1.3. Crisis of the Fordism

First World War proved that Fordist mode of production was the most productive, hence most profitable not only for the industrialists who possessed managerial and technological skills but also the workers as they were able to increase their control on the means of production. The immediate effect of the end of the war was the switch to military manufacturing to durable consumer goods production in the US. Even though there were almost 2.5 million men released from the armed forces to the labour market, 25 per cent rose of the industrial production allowed Fordist industries to swallow this huge number of labour (Potter 1985, 19). However, this post-war boom ended in 1921 when real GNP fell by over 2 per cent and unemployment rose to 12 per cent of the total labour force (Higgs 1989, 160). After a brief recession by 1922, the US economy recovered and performed well during the rest of the 1920s. Profits, wages and employment in industry all increased. America's GNP rose from 76 billion in 1922 to 104 billion in 1929, over 5 per cent per year (Potter 1985, 55). With the demise of the old industries and increasing implementation of the Fordist mode of production, productivity of the increased during 1920s as "industrial production per wage-earner rose from an index of 100 in 1921 to 135 in 1927 and 145 in 1929" (Potter 1985, 38). As industrial productivity rose, so the hourly wages of the labour in industry rose from 66 cents in 1923 to 71 cents in 1926 (Douglas 1930, 97). However, there was a growing gap with the distribution of the surplus-value while output per worker increased by almost 29 per cent, whereas real average hourly earnings increased only 10 per cent (Rupert 1995, 79).

With the recession of 1921, the industrialists tried to suppress working classes to increase their profitability because of the power working class gained during WWI which I will discuss in other sections in detail. The interests of the industrialists coincided with the government's coercive actions against suspected radicals during the red scare of 1919-20 and the anti-trust laws were turned against labour (Rupert 1995, 78). The result was an immense increase in the profitability for the industrialists as the productivity and GNP increased while wages remained relatively low. The richest 5 per cent of the USA received 23 per cent of total incomes in 1923 and 27 per cent in 1928, with 71 per cent of dividends going to the top 1 per cent (Potter 1985, 65). While Fordist mode of production clearly demonstrated a capacity to accumulate more and more income based on productive use of the capital, the social relations of production failed to distribute the gains of productivity in a way that would sustain the demand of the public at the requisite level. As discussed, earlier material expansion of this mode of production required an increasing demand to avoid overproduction and economic recession. While the internally class struggle between industrialists and working-class underlined the crisis of Fordism, the Fordist historical bloc couldn't compensate for decreasing internal demand by switching international markets because of the isolationist policies of the government and agricultural class fractions.

Fordist mode of production was unable to expand outward internationally after the war because of the isolationist policies adopted by the governments for 13 years from March 1920 when the US Senate turned down the US membership in the League of Nations until 1933. The underlying notion of isolationism was the continuing hegemonic struggle of different class fractions. While material expansion in the British case was an outward movement all along with targeted foreign markets, foreign suppliers, and foreign investment supported by the power of the British state, in the US case economic interests of different class fractions varied inward or outward. Interests of the large financial institutions, and country's leading industries based on increasing international economic exposure, while the bulk of American industry and small-scale banks continued to satisfy their interest with the domestic market and remained protectionist (Frieden 2006, 147). Agricultural class fractions, on the other hand, profited greatly during the war but their exposure to the international trade waned sharply right after the war. Therefore, internationalization of the Fordism had not been fully pursued by a successful historical bloc but only by the Fordist industrialists and private financial institutions in New York. Isolationism, on the other hand, isolationism had been pursued only as of the official policy of the state, as "the 1920s were the most economically expansionist decade in American history" (Panitch and Gindin 2012, 47), even though the trade liberalization enacted by Wilson in 1913 was reversed in 1921 and 1922 (Frieden 2006, 139). As politically it was not possible to institutionalize trade liberalization because of the persistent attacks of the agriculturalists, Republicans encouraged private capital to give loans to foreign countries to increase the US exports by providing them the necessary fund to participate in the US-led trade cycle (Rosenberg 1982, 145). However, this situation created an unregulated international economy that had not been protected by the American state as it was regulated and protected by the British state before WWI.

The problem of the agricultural class fractions was American farmers borrowed a lot from banks to be able to finance their own material expansion to be able to meet the immensely increased demand during the WWI. While American farmers purchased 11.000 tractors in 1914, they heavily borrowed for mechanization and by 1920 the number of tractors purchased by farmers increased to 140.000 (Clarke 1991, 103). However, "the value of America's exported foodstuffs had reached a peak over $2,6 billion in 1919, but slumped under $1 billion in 1923, averaging $756 million between 1926-1930" (Potter 1985, 36). This situation had two important consequences. First, agricultural class fractions insisted on the return of the tariff barriers to protect themselves which they got with the Smoot-Hawley Tariff Act (Eichengreen 2003, 41). Secondly, their inability to pay back the loans they got triggered the banking panic after the Great Depression. There were 30,000 separate banks in the US, most of the smaller banks were usually in the countryside which resulted in direct aggravation of the agricultural weaknesses into the banking system (Potter 1985, 72-3).

Another class fraction that harmed the banking and industrial sectors of the US was working classes. American working classes were not able to afford the consumer durables offered by the Fordist mass production by relying on their weekly earnings and "the spread of consumer durables in America was hastened by a great expansion of consumer credits" (Feinstein et. al. 2008, 58). "By the late 1920s one in five Americans owned a car, and 60 per cent of these cars were bought on instalment credit" (Konings and Panitch 2008, 228). However, when the income of the working class fell, first, demand for those durable goods decreased which in return diminished the profit of the industrialists who in return traditionally attacked the labour and wages (Potter 1985, 64-7). Secondly, those who bought those goods had a hard time paying their debts. By the end of the 1920s, the expansion of mortgage and consumer lending became a cause for concern for the banking system, however, the FED was not functioning as a modern central bank which had the macroeconomic capacity to regulate banking system (Konings 2008, 53-4). To conclude, the failure of the Fordism to establish itself as a hegemonic historical bloc that would unite the interest of all other class fractions led to a crisis of hegemony in the US that resulted in one of the greatest economic downfalls of the mankind. However, out of this social and economic slump, the American hegemony had risen.

6.1.4. The Great Depression

The Great Depression was the defining moment not only for the American economy in the twentieth century but also for the reconfigurations of social forces that had resulted in the rise of American hegemony. During 1920s American capital fueled post-war economic reconstruction of Europe until late 1928 when the American capital headed the New York Stock Market as it was more profitable. Overall market value of the shares listed in the New York Stock Exchange rose from 4 billion in 1923 to 67 billion at the beginning of 1929 (Potter 1985, 74-5). The Dow Jones Industrial Average doubled within a short time span to 381 in September 1929 (Frieden 2006, 174). As stock investments yield enormous sums that could not be accumulated through productive ends, both national and international investments shrunk. "The result was the accumulation of surplus funds which were used for paper investments but without any corresponding real investment" (Potter 1985, 68).

With the American capital moving inwards to the US and the initial burst of the crisis, American money that had fueled world economic growth declined by half monthly between mid-1928 to mid-1929 and another half by the last half of 1929 and turned "a mild recession elsewhere into a full-fledged crisis" (Frieden 2006, 174). The internationalization of the Fordism throughout the 1920s created a mutual interdependence between major economies of the world and the industrialists in the US. The US capital's penetration was far deeper than the British portfolio investments. By the 1929 the US had accumulated over fifteen billions of dollars in foreign investments of which five billions was direct investments of the Fordist industrialists (Frieden 2006, 140-41). Considering the fact that total direct investment of the American capital was 7.5 billion in 1929 (Rosenberg 1982, 123), we could understand the importance of foreign direct investment to the Fordist industrialists in the US. These direct investments generally involved expansion of the Fordist mode of production to other states without having a hegemonic patronage, like General Motors acquisition of automobile industry in the UK and Germany by taking over Vauxhall in 1925 and Opel in 1928 (Panitch and Gindin 2012, 50). Because of the increasing investments in the stock market and the economic recession in the Europe, even before the market crash the economy was experiencing a downturn from August 1929 to the October 1929 production fell 20 per cent, prices 7.5 per cent, and personal income 5 per cent (Friedman and Schwartz 1963, 306). As a result, unemployment increased from 3 per cent in 1929 to 9 per cent in 1930 and 16 per cent in 1931 with the furthering of the crisis in the banking sector (Frieden 2006, 176).

Banking crisis during early 1930s demonstrates how hegemonic expansion of Fordism failed during 1920s. First, overall implementation of isolationism in the world economy put the US into a position in which the US was most vulnerable of this lack of management of world economy. The US Congress prohibited the US administration from involving official international discussions of the economic issues (Frieden 2006, 144). Therefore, until the Great Depression, financial negotiations of the US were organized through the informal representation of private financiers such as J. P. Morgan (Sarai 2008, 77). Apart from big New York bankers "American finance was predominantly internal and only had a very limited international dimension" (Konings 2008, 54). The absence of an economic infrastructure that would regulate the international economy, Fordism was unable to support its material expansion. The Sterling Crisis which began in April 1931 demonstrates a great example of this loose international economy. After Britain left gold-standard major economies such as France, Belgium, Netherlands, Switzerland, and Sweden converted substantial amounts of their dollar assets in the New York money market to gold as they were anticipating the same policy change from the US (Friedman and Schwartz 2009, 37). FED's response was tightening the credit market which resulted in a new wave of selling on the stock market and a rush for liquidity that furthered the runs on many banks and precipitated the wave of bank failures (Potter 1985, 93).

The lack of government involvement in the economy also failed in the regulation of the domestic economy. The Great Depression showed that the classical economic ideology of the self-regulating market failed to maintain its hegemonic status during the depression. First, the idea of wages and prices of goods decrease it would be profitable for capitalists to invest more and produce more and consumers to consume more failed. The demands of labour clashed with this system's reliance on flexible wages and minimal government interference of the regulation of wages and pushed labour further forward to unionize and protect their interests (Frieden 2006, 117-170). Secondly, in the three years' time after October 1929 4000 banks had failed because of this inability of the financial institutions (Potter 1985, 116). While the panic led the public to withdraw their deposits, capitalists were reluctant to invest as the investment rates fell one-tenth of its 1929 level by 1932 when it accounted under 2 per cent of the GNP which was down by one-third compared to its 1929 levels (Potter 1985, 94). And when the Hoover administration decided to intervene in the situation, they decided to raise protective tariffs to the highest level of all time. The leading bankers, almost all the nation's economists and by the biggest representative of the American labour, American Federation of Labour urged the administration to veto the Smoot-Hawley Tariff Act as it would injure the American consumer, cripple the export markets and stumble the international trade (Rothbard 2000, 241). The act was regarded as a hostile act in the international economy and by 1932 many foreign governments had retaliated with their own tariffs and specifically anti-American embargoes (Potter 1985, 98). As a result, American industrialists opened almost 250 factories in foreign countries in the first two years of the tariff act and jumped the barriers by setting up subsidiaries themselves (Potter 1985, 98). To conclude the Great Depression was a focal point in the rise of Fordist historical bloc. It materializes how the Fordist mode of production failed to become hegemonic within the state and the world order. After the economic and social devastation of the depression, state involvement was restructured to facilitate the Fordist mode of social relations of production through extensive economic and social planning. Only after this reorganization of the social forces, Fordist historical bloc became hegemonic.

6.1.5. The New Deal

As we have seen Fordist mode of production, the ways in which physical goods were produced worked as intended. Throughout the 1910s and 1920s productivity of labour increased, industrial output increased and Fordist mass production achieved success not only in the US but also in foreign countries. However, mass production itself was not enough for the material expansion of the Fordist mode of production. As discussed earlier, the success of the Fordist mode of production depends upon rising productivity based on the economics of scale in mass production, rising income linked to productivity, increased mass demand due to rising wage, increased investment due to rise in the surplus-value based on continual improvements in productivity (Jessop 1992, 44). The success of the material expansion was depended on the symbiotic relationship between mass production and mass consumption. Since the internationalization of the Fordist mode of production was not a great success story because of the official isolationist/protectionist policies of the country, the success of the Fordism depended upon internal demand. However, the working-class market could not yet be reached under the social relations of production of the 1920s (Roobeek 1987, 132).

The social relations of production were governed by the classical economic ideology of free-market economy before the second half of the 1930s. As will be discussed in the next part in detail, the basic premise of this ideology was the market forces self regulates the production processes in which supply and demand would balance each other as investments and prices so the state intervention perceived as hostile. As the economic collapse of 1929-1933 "discredited classical free-market economics" (McElvaine 2009, 7), it introduced "a new stage of a considerable involvement of the state in the economy" (Duménil and Lévy 2001, 585). The New Deal represents the departure of the US government from its "previous stance of minimal interference in the domestic market economy in favor of comprehensive attempts at administrative intervention" (Skocpol and Finegold 1982, 255-6). This change of policy of the state structure in the US was an attempt to overcome the long last cleavage of agriculture and industry as well as lower the autonomy of the financial class fractions. The material success of Fordist social relations of production depended upon the productive use of the capital and tackle the overproduction and underconsumption by solving the distribution of surplus-value. State intervention in the domestic and international economy as well as the development of the welfare state allowed liberal internationalist historical bloc to overcome those problems and unite national energies behind the hegemonic expansion of the US after the Second World War. This historical bloc was formed by Fordist industrialists, internationally oriented New York banks, and the State Department of the US.

The liberal internationalist historical bloc was "the creation of Keynesian interventionist state and corporatist forms of bargaining and mediation of conflicting interest" (Altvater 1992, 20). Keynesian interventionist aimed to solve overproduction issue and underconsumption issue while being able to unite productive class fractions and monetary class fractions. By directly involved in planning the production processes and in distribution, the Keynesian interventionist state aimed to unite the interest of all class fractions in the US. The New Deal saw extensive regulation of big businesses and finance and the creation of more sector-specific regulatory agencies (Lindberg and Campbell 1991, 359). In the first phase of the New Deal new administration implemented a series of emergency relief bills for the unemployed; Banking Act of 1933 to reform the banking structure, Agricultural Adjustment Act to support farmers; a Securities Act to reform New York Stock Exchange; and the National Industrial Recovery Act. Farmers would have made income gains, industrial workers would have gained collective organization, industrialists would have enjoyed minimal competition while under government supervision (Skocpol and Finegold 1982, 257). However, the first phase of the New

Deal was relatively unstable as National Industrial Recovery Act (NIRA) failed to deliver a recovery and in turn legalized cartelization in American industry. On the other hand there were some success stories in agricultural and banking as the Agricultural Adjustment Act increased productivity of the agricultural production by wide-ranging efforts of planning, education and technological development and Banking Act prevented widespread bank failures as between 1934 and 1940 there were only 450 failed banks (Potter 1985, 117). As the New Deal failed to provide a sustained economic recovery class conflict intensified (Ferguson 1984, 43). The main reason of this failure was the administration failed to adopt Keynasianist budget deficit demand creation as one of the most important economic policy that Roosevelt wanted to pursue was to have a balanced budget deficit (Potter 1985, 140-5).

The most important success of the first phase of the New Deal was the removal of the obstructions in free trade. Devastating impact of the Smoot-Hawley Tariff Acts hit US foreign trade hard as US exports fell from 488 million to 120 million; imports fell from 368 million to 96 million; and world trade fell from 35 billion to 12 billion between 1929 to 1933 (Schnietz 2000, 418). In 1934 with the Reciprocal Trade Agreements Act transferred the authority over trade policy from Congress to the president of the USA, which altered the power balance between free traders and the protectionist. Previously with the high tariff barriers "benefits of tariffs are concentrated among producers in import-competing industries, whereas the costs are dispersed among producers in other industries and consumers" (Hiscox 1999, 669). Moreover, previously tariffs were set unilaterally which prevented reciprocal tariff reduction between the US and its trade partners and export-oriented Fordist industrialists had little incentive to struggle against protective barriers (Schnietz 2000, 437). With the transfer of authority over trade matters to the State Department, the US was able to make credible commitments in international politics (from 1934 to 1946 27 bilateral tariff agreements that dropped protection on dutiable goods from 53.6 per cent in 1933 to 25.5 per cent in 1946) and push for trade liberalization that the Fordist industrialists sought so hard after the First World War (Haggard 1988, 91-2; Schnietz 2000, 435). Critically, the transfer of authority from Congress to the

State Department distanced the debate over free trade and protectionism from political scene and founded the institutional foundations upon which US state structure was able to bid for world hegemony after the Second World War.

The second phase of the New Deal marked the strong adaptation of Keynesian economics in the US. Especially Work Progress Administration (WPA) epitomize the true extent of the Keynesian interventionist state. WPA created in 1935 and received 6.7 per cent of the GDP of the US to embark on a huge infrastructure planning including 480 airports, 78.000 bridges, and nearly 40.000 public buildings which helped the government to justify the new role of the state in American life (Smith 2009, 2-3). However, overall the New Deal was not an economic success story for the industrial production. By 1939 unemployment rose to 17 per cent, manufacturing output was almost the same as the 1929 level, but they increased their productivity and produce that same level with half a million fewer workers than in 1929 (Potter 1985, 137-8). As the economic policies failed, social policy was given priority (Higgs 1989, 22). Those policies allowed liberal internationalist historical bloc to achieve social hegemony in the US and expand internationally. As Fordist industrialists achieved higher level of productivity with less labour, they were less threatened by the increasing militancy of the labour movements. Even though there were individual objections of the industrialists to the Wagner Act, the act recognized labours' right to unionize which institutionalized collective bargaining without hurting industrialists' interest. "In 1930 about 10 per cent of the non-agricultural workforce was unionized; by 1939 over half of all industrial workers were in trade unions" (Potter 1985, 152). The state assumed the responsibility of mediating the class struggle in favour of productive capital accumulation further by the Social Security Act which constrained labour militancy and reinforced discipline of the labour market (Panitch and Gindin 2012, 59-60). Big industrialists like Eastman Kodak and General Electric started their own pension and health insurance programs and helped design New Deal social insurance legislation (Frieden 2006, 245). "Welfare state was established with the New Deal reforms in social security, agrarian subsidies and active employment promotion" even though "the labour-intensive South blocked a truly universalistic social security system" (Andersen 1990, 30-166). The New Deal bound workers and farmers the biggest challenge to the liberal internationalist historical bloc while freer trade and World War II meant better opportunities for labour intensive industrialists and monetary class fractions.

The period between 1940-45 has seen a strong economic recovery with an astonishing increase in factories, machines, and research development and a massive US government spending to cement the liberal internationalist historical bloc within the state structure. The productive bases of the US had to expand greatly from $40 billion in 1939 to $66 billion in the years between 1940-45 to be able to produce the $185 billion worth arms and munitions that US government demanded (Feagin and Riddell 1990, 53). The unemployment rate fell from 14.6 per cent in 1940 to 1.2 per cent in 1944 (Higgs 1992, 42). However, one of the reasons behind this decrease was the fact that millions of young men pulled from labour market into the armed force. Secondly, according to the official national product accounts, real GDP grew about 20 per cent annually in 1941,1942 and 1943 (Higgs 1999, 602). However, the share of the private capitalist enterprises was to low in this growth as more than 80 per cent of the 1941 increase in real GNP was associated with federal fiscal policies for World War II (Vernon 1994, 867). From 1941 to 1943 real gross private domestic investments reduced by 64 per cent and the Standard Poor's index had fallen by 1942, and the market value of all stocks had plunged by 62 per cent in nominal terms (Higgs 1992, 58).

Materially, the recovery from the Depression was susceptible as the state became a major economic actor that was threatening the accumulation regime of the private capital. In essence,, the economy during World War II was far from the free-market economy and the productive forces were employed for further productivity until the late stages of the war when liberal internationalist historical bloc managed to took control of the state structure for further expansion of the American hegemony. All processes of production, productive forces, and the distribution of the production were controlled by the government with price controls, rationing, prohibitions, quotas, scheduling, allocations, and subsidies. The credit market was under total control, as the FED "undertook to reduce and allocate consumer credit and pegged the nominal interest rate on government bonds at a barely positive level" (Higgs 1992, 54). Working-class fractions were under strict control as well, the rights they have fought and earned earlier deferred until the end of the war. For example, the average working hour increased from 38.1 hours in 1940 to 45.2 hours in 1944 (Higgs 1992, 53). However, how the government control of the wider regulation of the economy allowed liberal internationalist bloc to find a compromise with challenging class fractions by the end of the war. The institutional framework that governed the war economy was heavily influenced by the big capitalists represented by the Business Advisory Council. They managed to have their demands from Roosevelt which will be dealt with in a great deal in the institutionalization of the liberal internationalist hegemony in the US. In short, big industrialists and bankers asked that "defense mobilization must not be used as a cloak for constructing state-run facilities to compete with private firms; mobilization should proceed gradually enough to protect profits in civilian production; there should be no federal restrictions on excess profits, contracts should be cost-plus, and the tax code should protect appreciated allowances; and RFC (Reconstruction Finance Corporation) should not be directly competitive with banks but be the bank of last resort to protect the private industry from riskier wartime investments" (Feagin and Riddell 1990, 60).

6.2. Fordist Ideology

6.2.1. Ideology of productivism

As discussed earlier, Fordism as a mode of production is based on the mass consumption of durable goods and the mass consumption of those goods within the society at large. Achieving both ends of this mode of production first required subjugation of the working class to the necessities of the production processes to achieve unprecedented productivity levels to push down the prices of the goods for mass consumption. Therefore, it was not possible to sustain those both ends with the coercive apparatuses of the previous social relations of production. Skilled industrial craft workers were flexible and autonomous from the employers' control over the production process and for the full realization of the Fordist socialization of production craft unions were to be destroyed to the full capitalist application of Fordism (Clarke 1990b, 6). The resistance of the organized American working class to the Fordist mode of production was to protect their craft rights (Gramsci 1971, 286). However, the pivotal aim of the new social relations of production was to ensure that capitalists could exercise increased control "over the actual performance of work, a greater and more nearly uniform pace and intensity of work, to increase the productivity of labour, and thus to increase the ability of capital to extract surplus labour" (Rupert 1995, 60). Fordist mode of production required total and voluntary subjugation of the working class.

Frederic W. Taylor was the preeminent ideolog of this new social relations of production who envisioned reconciliation of employers and workers in the new factory ground which would exempt factory ground from the class struggle. He argued that both labour and capitalists would realize "when they substitute friendly cooperation and mutual helpfulness for antagonism and strife, they are together able to make this surplus so enormously greater" (Taylor 1947, 29). When those two sides remove the factory ground for their social struggle, they could increase the surplus-value which would at the end in the interest of both groups. In Henry Ford's own words "The owners, the employees, and the buying public are all the same, and unless an industry can so manage itself as to keep wages and prices low, it destroys itself, for otherwise, it limits the number of its customers" (Ford and Crowther 1926, 9). To sustain this cohesion Fordism required absolute discipline in the factory ground;

> We expect the men to do what they are told. The organization is so highly specialized, and one part is so dependent upon another that we could not for a moment consider allowing the men to have their way. Without the

> most rigid discipline, we would have the utmost confusion (Ford and Crowther 1926, 252).

The problem of labour discipline appeared in many different forms “interruptions in production, deterioration in quality, absenteeism, sickness, labour turnover and the growth of trades union activity” (Clarke 1990b, 8). Fordist ideology employed two different but complementing strategies to be able to create a new man who “suited to the new type of work and productive process” by controlling their morals, family life, or by coercive apparatuses (Gramsci 1971, 286).

First, Fordist ideology used profit sharing as a tool to impose a self-discipline mechanism over the labour. Fordism developed a more complex production organization that involved bonuses, incentives, and piecework payments that divided the labour force within the factory which created a new “skill-wage” hierarchy by which individual workers could be subordinated to the discipline of their peers (Clarke 1990b, 10). Secondly, Ford introduced another scheme which was complementing the material prerogatives to shape the morality of the labour. Five Dollar Day scheme was used to “set standards of morality and behavior both on and off the job” which aimed “to inculcate American values and to build American way of life” by using churches, education, and welfare programme (Clarke 1990b, 9). Those who pass the tests were entitled to work less for more money under the guise of profit sharing. This scheme had two important consequences. First, Fordist social relations of production acquired a position of control over the labour that no social relations of production allowed by combining consent and coercion.

> The initial impact of the new scheme was dramatic. Absenteeism fell from ten per cent to half a per cent. Labour turnover fell from 400 per cent to 15 per cent. Productivity rose so dramatically that despite the doubling of wages and the shortening of the working day production costs fell. (Clarke 1990b, 9)

However, as discussed earlier the Fordist mode of production had internal problems with overproduction/underconsumption and required further expansion to avoid a crisis. To create new consumer demand and propagate the American way of life, American mass-producers tried to expand their ideology internationally. As discussed previously, the giant US firms emerged from World War one engaging in foreign trade and investment opportunities that propagated Fordist social relations of production at large. However, this hegemonic expansion came to an end with the isolationist policies followed by the US governments throughout the 1920s.

6.2.2. American Isolationism vs Internationalism

The ideological struggle between American isolationism and internationalism was the outcome of the class struggle between two historical blocs to achieve social hegemony. As discussed earlier, American protectionism was focused on the protection of the developing industrial base against the developed industrial competition under the guise of free trade. However, once those developing industries became the most productive in the world with the Fordist mode of production, protectionism hindered the further material expansion of the Fordist interests. Those large industrialists and large financial institutions that had foreign investments promoted the ideology of internationalism, while smaller businesses usually pursued insular policies that would protect them from foreign competition. In the American case, the ideological power of the protectionism was rooted in a broader ideological system of isolationism. In the broadest sense, isolationism is a belief system that is characterized by "a desire for unconditional non-involvement in world affairs" (Braumoeller 2010, 352). It is the unwillingness of a nation to bring its influence on other nations to exert pressure on economic, diplomatic, or military matters and shape them according to the interest of the nation (Kindleberger 1976, 239). Isolationism's grip on the US was especially very strong in the first half of the twentieth century (Art 2004, 172), that created one of the most important ideological faultlines between different class fractions. The central principle of the ideology was "to stay out of most wars and to keep a free hand for the United States" (Braumoeller 2010, 172).

The first challenge to the traditional isolationism occurred during World War One even though the idea of internationalism had influential followers. Theodore Roosevelt was one of the first figures that inspired the emergence of internationalism in the US. He realized as early as 1902 that “the increasing interdependence and complexity of international political and economic relations … insist on the proper policing of the world” (Powaski 1991, 1). Internationalist sentiments in the US reached its climax with the World War One. This phase of the internationalism represented itself best within the ideas of President Woodrow Wilson. Wilson articulated an ideology -Wilsonianism- to define a new world order in which the US assumes the leadership role (Ambrosius 2012, 22). Wilsonianism was the foundation of liberal internationalism which later featured the nature of the American Century as famously defined by Henry Luce (1999, 67). Wilson was a cosmopolitan who fought against tyranny in domestic affairs and illegitimate use of violence in international affairs (Hoffman 1995, 160). He forfeited the long-assumed responsibility of the United States to protect the interests of the American investors and businesses internationally as he argues “armies and navies were not intended as collectors of bad debts” (Dodd 1923, 119). His liberal internationalist sentiments were strongly opposed to the economic imperialism of the time and he sought to end this rival imperialism era by promoting liberal internationalist principles.

Wilson tried to promote his ideas internationally and create a world order that would take the US out of isolationism permanently, assume the leadership role of the democratic governments in the world, and create a collective security regime and creating prosperity for all who participates in open markets (Smith 2009, xiii). Wilson’s principles were, universal, broad, and expansive but they were pursued with limited means (Dueck 2003, 1-2). His ideas were without the backing of the national forces and as Ikenberry correctly defines it was to be “institutionally thin” (Ikenberry 2009, 74). Most importantly, there was no hegemonic historical bloc that was supporting the world order that Wilson envisioned. In other words, Wilson’s world order was not an expansion of social hegemony in the US. Finally, the failure of his ambitious schemes in the international relations were to be the foundations of the post-war economic situation which was not characterized by the free trade but protectionism because of the reparation clauses of the war settlement (Keynes 1920). The war settlement prevented further expansion of the Fordist mode of production as reparation clauses hindered the ability of the international trade to sustain the levels it achieved during the wartime.

The United States in the 1920s adopted a policy that has labeled as "new isolationism" which was midway between the political isolationism of the traditional American policy and the economic internationalism of the Wilsonian internationalist (Powaski 1991, 23). The most important ideological standpoint of this policy was its private nature. The US state structure wanted to assume no responsibility whatsoever for the functioning of the world economy as the Republicans sought to reduce the government role which raised to an unprecedented level due to increasing economic demand that World War One brought. In short, "government would encourage responsible private initiatives, but not replace them" (Rosenberg 1982, 138). Even though American government officially uninterested with the results of the WWI because of the rejection of the Versailles Settlement, the American government asked a committee of bankers headed by Charles Dawes, who was the first Director of the Bureau of Budget and later Vice President of the United States to go to Europe and assist in the resolution of reparation matter (Braumoeller 2010, 357). The reason for this increasing internationalism while still holding onto the traditional political isolationism was the enduring class struggle between two different historical blocs. The ideological constraint of the isolationism failed the international expansion of the Fordism except for the leading industrialists and bankers. As European states were unable to solve their disputes over reparation, their economies faltered and affected American trade negatively. This inability of the liberal internationalist historical bloc to expand internationally to sustain its material expansion had led to the intensification of the class struggle with the Great Depression. It was Keynesianism that offered ideological solutions to the liberal internationalist historical bloc during the 1930s.

6.2.3. Keynesianism and welfare state

Lack of government involvement in the national economy and international economy had led to one of the most severe economic crises that the world have ever seen before 1929. In the national context, lack of government involvement had led to increasing control of the industrialists over production processes that created not only a social cleavage between working-class and industrialists but also the failure of the Fordist mode of production as lack of government control of the social relations of production had led to the concentration of capital within a privileged few that would not necessarily invest their profits for productive ends. Moreover, when the mass consumption declined on the side of the working classes, small financial institutions distributed consumer capital credit unregulated. In the international context, isolationism resulted in the increasing autonomy of the great financial houses of New York as they negotiated international financial matters on behalf of the US government. Secondly, this private regulation of the international monetary issues failed when states started to take unilateral decisions that would hurt world trade at large. It was the Keynesianism that provided the ideological solution to these problems. Keynesianism allowed the Fordist mode of production to be hegemonic in the US and later allowed American hegemony to expand internationally "on the basis of compromise among nations, classes, parties and groups" (Frieden 2006, 279). Keynes became the savior of the Fordist mode of production with his economic doctrine.

> I was brought up, like most Englishman to respect free trade not only as an economic doctrine which rational and instructed person could not doubt, but almost as a part of the moral law. (Keynes 1933, 755)

Keynes was heavily influenced by his tutor, Alfred Marshall, as we have seen in the previous chapters, was an influential figure of the classical economy in which market would balance itself as long as it remains uncontrolled and free trade would ensure the equilibrium of the market. Moreover, he realized the importance of ideas and institutions that were symbiotically shaped and got shaped by economics.

> The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slave of some defunct economist. (Keynes 1936, 383).

Keynes was not a revolutionary economist per se, as he put his faith in the market forces and money capital like his tutor. The market was still the basis of the abstract conceptualization of his economic ideas except he thought market forces have to be regulated to avoid market failures. Hence, the Keynesian revolution was not so much a scientific as an ideological revolution (Clarke 1988, 221). His main legacy was how he comprehended the problems of the world economy starting with the end of World War One and offer practical solutions to them. Keynes questioned the postwar settlement, the autonomy of the financial class fractions, and offered economic management through central planning as the solution to the problems that had led to the Great Depression.

The basic premise of Keynesianism was that "the level of economic activity is determined by the level of aggregate demand" (Palley 2004, 2). In other words, production processes depend on the negative or positive expectations of the firm owners on the total level of demand for their goods and services. The government in Keynesianism plays an important role in mitigating the negative and positive expectations of the economy through increasing the money circulation in the economy during depressions and decreasing it during the speculative upsurge of the stock market (De Haan 2016, 49). Moreover, it is the government's responsibility to decrease the unemployment rate and sustain full employment by big public works to boost aggregate demand. By doing so the invisible hand of the capital market would transform into the necessary investments to sustain social cohesion. This was quite different from the neoclassical doctrine which argues that "should the propensity to invest drop, the interest rate and wages will drop as a result, triggering fresh investments" (De Haan 2016, 47). However, Keynes was a firm believer in "the marginal product theory of income distribution, whereby workers get paid what they are worth to the company" (Palley 2004, 3). The underlying premise is that each class fraction has to consider the interests of other classes, as the class conflict might be "much more costly in economic terms by its disruption of the increasingly complex and capital intensive process of industrial production" (Offe 1983, 237-8). This ideological standpoint treats the activities of trade unions as an intervention to the labour market which distorts it. Keynes's focus on economic instability rather than the injustice of the existing social relations of production became a fault line between the labour and the capitalist that were to be solved by the welfare state.

In its simplest form welfare state refers to the public relief programs and social insurance. However, the social security system in the US was established as the "sacred governmental obligations to deserving workers who have paid for the contributions of their working lifetime" (Skocpol 1988, 295). Keynesian welfare state solved two important problems that hindered Fordism to became hegemonic. First, by subsidizing the social expenditures that were previously had to be met by the industrialists, the state acts in the interest of the industrialists (Quadagno 1987, 115). Moreover, the increase in the state-sponsored distribution policies might increase the aggregate demand to the extent they target those who have high marginal propensities to consume (Gintis and Bowles 1982, 341). Secondly and most importantly Keynesian welfare state served the critical function of the "taking part of the needs of the working class out of the class struggle and industrial conflict arenas" (Offe 1983, 238). The welfare state aimed to create "a consensual society" by using "ideological forms of control – the propagation of the dominant ideology through the official agencies of the state and the informal processes of society" (George and Wilding 1996, 14-107). In this respect, collective bargaining institutionalized this aim of the Keynesian welfare state by dispelling the labour's claim on the means of production and departed the pattern of industrial and labour conflict from radicalism (Offe 1983, 237).

Finally, his views on the financial class fractions especially the big financial institutions were of the importance for the rise of the liberal internationalist hegemonic bloc. As the autonomy of the finance grew stronger during the 1920s, he realized that national and international capital movement threatens economic stability. First, he problematizes the fact that "there is no automatic mechanism in a credit-money economy to keep savings and investments in equilibrium" (De Haan 2016, 45). This means the credit money market is open to speculation unless a central bank regulates the market with macroeconomic management. Secondly, in addition to the national regulation of the credit market, Keynes advises to the domestic policymakers to rule out the inward and outward capital flight as the capital movements have to be regulated to a certain degree (Keynes 1933, 757). Secondly, the role of the finance was "servant rather than a master in economic and political matters" (Helleiner 1994, 5). Finance was depicted as the servant of the industry for the Keynesian compromise to work (Russell 2008, 1-15). "Keynesianism represented a real encroachment on the prerogatives of finance" (Duménil and Lévy 2001, 586). Regulation of capitalist credit market, labour market through full employment, and collective bargaining all reinforce effective domestic demand and adjust demand to the needs of Fordist mass production by creating forms of collective consumption favorable to the Fordist social relations of production (Jessop 1996, 168). Keynesianism provided the necessary ideological background that Ford envisioned during the early 1900s. The self-regulating market in which the outcome of the class struggle was decisive of the success of a mode of production was replaced by a welfare state that aims to regulate the market conditions, especially the mechanisms of the distribution (Godbout 1991, 121).

6.3. Institutionalization of the Keynesian Welfare State

Keynes' influence on the institutionalization of the liberal internationalist historical bloc through the Keynesian welfare state was doubtful before World War II even though his ideas changed the intellectual climate (Salant 1989, 29). By the late 1930s Keynesians occupied critical positions in Treasury, the Budget Bureau, the Department of Commerce, and the Federal Reserve whose impact was immense in the making of the Keynesian welfare state (Weir 1989, 56). The institutionalization of the hegemonic historical bloc took place between 1933 and 1946. During 1933-1938 the government involvement increased drastically but the main component of Keynesian thinking, running a budget deficit to ensure full employment was still considered radical. This phase was marked by the efforts to sustain a social cohesion among agricultural, industrial, and monetary class fractions as well as their relations to the larger working-class fractions. The newly adopted central planning, active fiscal policy, and market regulation were used to sustain economic stability and social cohesion. After 1938 and especially with the start of World War II, the US achieved both economic ends of the Keynesian welfare state and ensure Keynesian compromise among different class fractions. This section focuses on the institutionalization of the hegemonic ideas that would sustain the material basis of the hegemonic mode of production by focusing on the institutional arrangements of the Keynesian welfare state on the social relations of production in agriculture, industry, and finance as well as the position of the working class vis a vis to those arrangements. The New Deal marks the departure from minimal government interference in the domestic market economy in favor of comprehensive attempts of government intervention in market forces (Skocpol and Finegold 1982, 255-6). Moreover, for this research, this period also represents the amalgamation of the competing interests of the different class fractions within the framework of a Keynesian welfare state. Finally, this section will explore how isolationism was replaced by liberal internationalism which would allow American hegemony to expand internationally after World War II.

6.3.1. The New Deal and the institutionalization of the social relations of production

The main aim of the recovery plans of the Roosevelt administration was to build up the business confidence so that they would invest, instead of employing their capital in non-productive and speculative ends. The very first thing that Roosevelt administration to ensure public trust towards the bank and to cease the panic was guaranteeing the safety of deposits (Potter 1985, 116). Moreover, the autonomy of finance had to be limited to credit mechanisms and financial operations had to be regulated both domestically and internationally (Duménil and Lévy 2001, 586). The Glass-Steagall Act increased the power of the state over private banks which reduced the autonomy of the financial class fractions. The bankers were so frightened by the domestic situation and did not object to the sweeping emergency authority to deal with the banking crisis (Panitch and Gindin 2012, 57). Critically, this process occurred as an intensive struggle both within the financial class fractions and the struggle of productive class fractions against monopolistic big financial houses of New York, especially against the House of Morgan which had gained immense power over national and international monetary structures. Workers, farmers, industrialists, and all major non-Morgan investment banks in America lined up behind Roosevelt (Ferguson 1984, 81). The first move was the abandonment of the Gold Standard in April 1933, which was actively pursued by agricultural and industrial producers to increase their profits. However, increasing inflation worsened the conditions of the working class and the Treasury fixed the price of gold at $35 per ounce at which remained until 1972 (Potter 1985, 147).

Secondly, the Glass-Steagall act directly attacked the hegemonic position of the J.P. Morgan in the realm of finance by separating investment and commercial banks with the efforts of the Chase National Bank owned by the Rockefeller (Skocpol 1980, 164; Ferguson 1984, 83-9). This division allowed for low-cost loans to industry and at the same time ensured bank profitability (Panitch and Gindin 2012, 58). Additionally, this act "confirmed the supremacy of the Board of Governors in Washington over the New York Federal Reserve" (Ferguson 198, 89). The Keynesian compromise that was brought by the New Deal is crucial for the power of finance as it brought balance within the financial class fractions by reducing the power of the House of Morgan and the big New York financial institutions. Moreover, the state sustained a balance in its relationship with the financial class fractions at large instead of replacing the House of Morgan with the crude government involvement in the realm of finance. Moreover, the institutional change in the realm of finance "were all along oriented more towards promoting rather than reducing the working classes' integration into and dependence on the financial system" (Konings 2008, 55). The macro-economic responsibility of the state was ensured only after the Great Depression and World War II in the context of rising labour (Duménil and Lévy 2001, 586). The rest of the New Deal legislation aimed to further the government involvement to be able to reconcile the interests of the different productive interests and the interests of the American working classes.

As discussed earlier the economic issues in the US from the Civil War to the election of Roosevelt was the point of contention between the agricultural and industrial class fractions. The very first policy move of the Roosevelt administration was to address the problems in the agricultural production as Roosevelt gained his presidency thanks to the predominant support of the Western and Southern commercial farmers (Skocpol 1980, 171). Furthermore, the decreased purchasing power of the agricultural producers threatened the economic recovery of the industry, and as Roosevelt declared that "increase in the purchasing power of our farmers and the consumption of articles manufactured in our industrial communities" (Rasmussen 1983, 1158). The first Agricultural Adjustment Act (A.A.A.) was passed on 12 May 1933 which intended to restore ever-decreasing farm prices in the 1920s by restricting the output, regulate the amount of each crop to be planted in the next season and ensure benefit payments which were to be paid by the food manufacturers as tax (Potter 1985, 119). The A.A.A. was declared unconstitutional in 1936 by the Supreme Court on the grounds of unconstitutional regulation of the local commerce with the new tax on the processors (Finegold 1982, 6). The second A.A.A. was passed in 1938 which guaranteed to buy surplus production by the government when the prices were low. A high proportion of the farmers signed up and complied with the regulation of the production control and the result was increased productivity and income in agriculture (Finegold 1982, 6; Potter 1985, 152).

The institutionalization of the New Deal was successful in agriculture due to the successful combination of the intellectuals who drafted policy response to save agriculture in the US, the government officials who carried out those policies within the state structure and the agricultural organizations that gained the consent of their members to pursue those policies (Finegold 1982, 20-5). On the other hand, these legislations and institutions had not solved the agricultural problems that had stemmed from the structure of American agriculture (Rasmussen 1983, 1159-1161). This problem presented "the classical New Deal dilemma"; whether to pursue social equality or economic recovery (Potter 1985, 151). While they provided relief or small-scale solutions to the poorest fraction of the agriculture, they never intended to solve the problems posited by the property relations and the concentration of the land in the hands of big commercial farmers. As a result, those who were living on subsistence moved out of agriculture and seek their fortunes in industrial production. Moreover, the major commercial farm organization, the American Farm Bureau Federation (AFBF) was able to increase its operations in tandem with the A.A.A., and in return, the organization became pivotal in defending the class interests of commercial farmers (Skocpol and Finegold 1982, 258). In return for their support in other New Deal legislation and institutions, Southern agriculturalists got some compromises on the social security and labour regulations and protected their dominancy over the farming working classes (Linder 1987, 1336). However, the position of the agriculturalists towards the industrial labour was quite the opposite as agriculture and industrial labour worked out a compromise: "strong support for agricultural prices and market regulation in exchange for union organization rights, unemployment benefits, and social security" (Gourevitch 1989, 94). Secondly, the Southern agriculturalists provided strong support for trade liberalization and the internationalism of the US. According to a poll conducted in 1938, 92 per cent of the people of the South favored the general principles of the Reciprocal Trade Agreements Act inaugurated in 1934 and before the World War II, 69 per cent voted of the South's representatives in Congress supported every internationalist measure proposed (DeConde 1958, 332-9). While the New Deal's agricultural program ended up being successfully institutionalized in favor of the liberal internationalist bloc, the industrial program failed to do that until the Second World War.

As discussed earlier during the First World War, the labour gained some concessions in terms of unionization and the American Federation of Labour (AFL) emerged as a formidable group due to their direct relationship with the government during the war (Eichengreen 2003, 39). However, with the end of the war, the power of the unions was diminished by the collective action of the big industrialists with the successful combination of Americanism, heavy-handed repression, and employee benefit plans (Domhoff 1990, 76). While previously big industrialists were united against labour unions collectively through establishing special private committees, institutions in big universities and successfully promoting welfare policies, the Great Depression altered this one-sided dominance of the US capitalists over the labour. As the depression intensified the US capitalists welcomed the government involvement in the economy as they thought that they would be able to prosper through central planning while keeping their previous autonomy in production relations (Skocpol 1980, 165). The economic recovery of the US depended on demand creation through improving the conditions of labour and pacifying them to protect the pacing of the production process. To achieve this end what Roosevelt envisioned was to "balance existing pressures from capital and labour" (Skocpol 1980, 179). This compromise would undermine economic recovery through sustaining demand by regulating prices. Senator Robert Wagner became the spearhead of the liberal views on this matter. He worked in a machine factory during a period when the profit-sharing ideology through private measures of social reform was strong in the business. Wagner's vision of the balance Roosevelt envisioned was beyond the basic collective bargaining process which entailed simple countervailing power by increasing the power of the labour against the vastly organized power of the capital (Keyserling 1960, 220). Rather he wanted to establish the state power as the guidance for sustaining this balance by limiting the power of the capital and guide the working class. The aim was to institutionalize a common interest between the employer and the trade unions rather than letting them struggle daily.

One of the very first moves that had targeted industrial recovery was the National Industrial Recovery Act (NIRA) that passed in the first hundred days of the

New Deal legislation and National Recovery Administration (NRA) to carry on the promises of the act. It was envisaged as "a joint-business government effort to promote national economic recovery" (Skocpol 1980, 159). The main aim of the NIRA was to ensure the much-needed compromise between industrialists and labour to protect the mass production and mass consumption cycle by "promoting cartels to aid industry and promoting unions to aid employees" (Weinstein 1981, 263). Moreover, according to the NRA report of 1937, NIRA aimed: increasing the purchasing power of labour; increasing the employment rates by reducing working hours; eliminating destructive competition by minimum-price regulation; and providing relief through redistribution of income (Cited in Weinstein 1981, 263). However, there was little to indicate the type of code provisions that might be used to achieve these objectives (Hawley 2015, 32). As a result, the implementation of this legislation became a venue of class struggle between industrialists and labour.

The representation of the major capitalist business was overwhelmingly exceeded labour representation on the administrative board of the NRA, even though there were members of the AFL. Former military officer General Hugh Johnson who was an important figure in the war planning of WWI and who had close ties with business leaders became the head of the NRA and set up an industrial advisory board that was influential in undermining the influence of the pro-labour Wagner and others. This advisory board consisted eighteen of the sixty largest banks, railroads, utilities, and manufacturing corporations of the day that were linked to the Business Advisory Council (BAC), whose first task was to prepare a report on the employee representation and collective bargaining (Domhoff and Webber 2011, 133-4). On the other side, Wagner's draft was based on a plan developed by the president of the Brooking Institution with the help of an economist from Colombia University (Domhoff and Webber 2011, 107). Wagner and the AFL succeeded in protecting labour rights in the legislation by adding section 7a in NIRA, which became a bitter contestation ground between the labour and the industrialists.

Section 7a of the NIRA recognized the right of industrial labour "to organize and bargain collectively through representatives of their own choosing" and "shall be free from interference, restraint and coercion of employers of labours and their agents" (Bernstein 1970, 30-1). While the intention was to pacify, depoliticize the labour through recognizing some of their rights, the outcome deepened the conflicts between industrialists, labour and the state because it defined the collective bargain as the focal point of the struggle (Chandler 1970, 231). In August 1933, Roosevelt appointed Wagner as the chair of National Labour Board (NLB) that was supposed to carry out the implementation of the labour rights under section 7a (Skocpol 1980, 167). However, the NIRA had no binding rules to regulate the relation between the industrialists and labour during the collective bargain and many industrialists such as Ford refused to cave into the demands of the NLB (Bernstein 1987, 195). In short, once the NRA was captured by the big business representatives it functioned to guarantee monopoly of the big industrialists and undermined general economic recovery (Skocpol 1980, 176). As a result, NIRA was neither able to deliver economic recovery in relative terms nor deliver what was promised to the labour.

It was the Wagner's Act that put the full legal backing of the state to enforce union recognition and ensure the compromise Roosevelt envisioned (Skocpol 1980, 167). After the failure of the NIRA to address the struggle between the labour and the industrialists, the increased labour militancy by 1934 strikes paved the way for a new and more powerful legislation (Goldfield 1989, 19). In 1934 growth in union membership increased by 20 per cent (Panitch and Gindin 2012, 58). "Ironically, contrary to its design, the National Industrial Recovery Act and NRA's implementation of the act actually worked to disorganize the capitalist class and to organize the working class" (Levine 1988, 82). Big industrialists "had lost political influence and economic ideological hegemony because of the failure of the NRA" (Finegold and Skocpol 1984, 183). However, they got what they wanted in terms of economic recovery; fixed prices, and stabilized production which allowed them to gain an advantage against small manufacturers (Skocpol 1980, 164). This situation created a clear-cut division between small manufacturers and large corporations as the BAC influenced NRA to provide those monopolistic advantages (Hawley 2015, 83). The failure of the NIRA due to the inability of the US government to demonstrate an administrative capacity independent from the influence of the big business had led to the failure of the economic expansion needed by the capitalist class as a whole (Skocpol 1980, 178). This failure also led to the endorsement of Wagner's act with the strong support of agricultural class fractions, labour organizations, and liberal government administrators against the bitter opposition of the business community.

In short, Wagner Act "reiterated and put teeth into the promises earlier made in section 7a of the NIRA" by establishing a regulatory body to determine collective bargaining units, to investigate unfair conduct allegations, and hold elections to certify union representatives (Skocpol 1980, 159). Critically, the Wagner Act passed because it was acceptable to the agricultural class fractions due to "the exclusion of agricultural and seasonal labour from its protection" (Domhoff 1990, 97). Secondly, the institutionalization of the labour unions further increased by the electoral power of the labour. However, in the end, big industrialists were able to limit the conflict between capital and labour to the collective bargaining over wages, working hours, and working conditions and further undermined collective bargaining with welfare capitalism, scientific management, and outright repression (Domhoff 1990, 104). Thirdly, the development of responsible trade unionism through Wagner's act with the ideological, financial, and political encouragement of the state, proved itself a powerful force for stabilization (Clarke 1990b, 10). To conclude, since the institutionalization of the New Deal was in favor of the capitalists, there was a tendency to assume that they must have planned it and used the New Deal legislation as a disguise for their actions (Hawley 1975, 75). As we have seen above, the institutionalization of the new social relations of production was not the making of the big industrialists, rather the outcome of the class struggle to sustain social cohesion between the capital and labour. The Social Security Act of 1935 demonstrates how this cohesion further strengthened while there was a clear struggle between different capitalist class fractions.

The Social Security Act of 1935 represented the beginning of the Keynesian welfare state in the United States. The Social Security Act was the result of a conflict within the state structure between different class fractions that were feeling the pressure from the majority of the public whose economic well-being had been severely disrupted by the Great Depression (Domhoff 1990, 64). In other words, the class struggle between different class fractions to achieve social hegemony was culminated by the formulation of the act. The Social Security Act represented a battleground between big industrialists and labour force against small industrialists and agricultural producers. The act was endorsed by the big industrialists, and bankers represented by the BAC, (Skocpol 1980, 163). Organized labour was not really involved pressuring the government and industrialists but it was “a reform movement of the aged” that emphasize the necessity of the social security reform as they were able to convince state managers that reform might solve both the purchasing power problem and social cohesion (Quadagno 1984, 638). However, the agriculturalist South and small-scale manufacturers have strongly opposed to the Social Security Act. Big industrialists were able to shape the public opinion by using the American Association for Labour Legislation (AALL), the “chief vehicle” of the social security reform that is funded by the National Civic Federation (NCF), the organization with a wide section of the leading employers of the day (Skocpol and Ikenberry 1983, 99; Domhoff 1990, 48). Big industrialists managed to secure their wishes, as the social security concept tied to participation, benefits would never be higher than existing minimum wage, and benefits would be defined in terms of age not the redistribution of the income (Quadagno 1984, 634). Moreover, the agricultural class fraction and labor-intensive small industrialists managed to get a concession as they blocked a truly universalistic social security system that encompasses the whole country (Andersen 1990, 30). The Social Security Act represented the acceptance of the approaches of the profit-sharing ideology of the big industrialists as the issue of the redistribution of the income was overshadowed by the imposition of employer and employee contribution to the system.

Finally, it is important to discuss how trade liberalization institutionalized in the US. The critical point here is the sheer division of the realm of politics and economics before the Second World War. While the hegemonic historical bloc and state executives pursued freer trade compared to the pre-Depression period, there was strong opposition against political involvement in international matters. However, only with the end of the Second World War, the liberal internationalist sentiments became hegemonic. “The institutionalization of the liberal idea of free trade can be dated to 1934” (Goldstein 1988, 187). The Reciprocal Trade Agreements Act of 1934 (RTAA) replaced protectionism in the US trade with free trade as a basis of policy for the policymakers. Fordist industrialists, big finance houses of New York except for Morgan which lost its previous autonomous position vis a vis the US government, and the agriculturalists were the strong supporters of free trade. Critically, the RTAA included concessions in trade negotiations it polarized the competing interests of the supporters of export-oriented and important oriented trade (Haggard 1988, 93). While the internationalist segment of the capitalist class fractions “have a strong interest in overseas sales, investments, or raw material extraction”, the nationalist segment of the capitalist class fractions was rooted in the domestic market that generally opposed free trade (Domhoff 1990, 38). To avoid conflict among capitalist interests, the government put “the escape clause provisions which permit the protection of industries injured by liberal internationalism” (Haggard 1988, 102). The institutionalization of freer trade through the RTAA demonstrates the liberal internationalism of pre-World War II, which had not aimed to create international monetary and commercial regimes that the postwar liberal internationalism targeted.

Roosevelt’s internationalism was focused on the realm of the economy as he wanted to establish a sound national economy which was more important than international politics (Haggard 1988, 97). Even though Franklin D. Roosevelt who strongly influenced by Wilsonianism and his older cousin Theodore Roosevelt and believed that the US must play a major role in international relations, he was unable to alter the isolationist public discourse and accepted the isolationism by saying “The United States cannot take part in political arrangements in Europe” (Powaski 1991, 174; Legro 2000, 261). Roosevelt simply followed the strong public support of isolationism as a poll suggests that 95 per cent of the participants felt that in the event of the war the US should not get involved (Legro 2000, 272). The isolationist sentiments in this period best represented itself with the Neutrality Acts in the interwar period (Braumoeller 2010, 359). Preoccupied with the problems that the Great Depression created and aware of the strong isolation public discourse, Roosevelt signed the first of a series of Neutrality Acts starting in August 1935 (Powaski 1991, 178). These acts ensured political isolation of the US and in a way balanced the increasing internationalism through trade liberalization. However, in November 1939 the balance between internationalists and isolationists were lost as internationalist insisted on and won to put a special arrangement to support Britain through cash and carry provisions (Braumoeler 2010, 359). With the start of the Second World War, internationalist sentiment grew on the public, and Roosevelt further strengthened that public discourse. In Marc 1945, 81 per cent favored US participation in a world organization that could enforce open markets and policing power to maintaining international stability (Legro 2000, 274). Liberal internationalism became hegemonic only after the Second World War when the USA committed a liberal international world order that expanded the Fordist mode of production and the Keynesian welfare state to other states.

6.4. Conclusion

Reconfiguration of social forces was being consolidated in the US after the Great Depression. The hegemonic struggle between different class fractions finalized with the end of the Second World War and started its outward expansion. A hegemonic historical bloc rose to power during the New Deal legislation that institutionalized by the combination of free trade and the Keynesian welfare state. This combination later expanded internationally and characterizes the liberal internationalist world order that the US hegemony constructed right after the Second World War. Fordist mode of production which was characterized by monopolistic economic structures and monopolistic wage-labour relations was to be regulated through extended state functions such as "fiscal policymaking, indicative planning, organization of the social security system, direct and indirect investors and arbitrator in collective bargaining

[and] internationalization of economic and social life" (Moulaert et. al. 1989, 12). The Keynesian welfare state has two key functions in promoting the material expansion of Fordism. First, it manages aggregate demand through central planning and running a deficit budget when necessary. Secondly, the state must ensure certain levels of demand through a change in the distribution of income by social security measures and collective bargaining. Labour and industrialists' relation was organized around the recognition of the labour of capitalists' ownership means of production in return of higher wages and industrialists' recognition of collective bargaining. Keynesian welfare state moved Fordist social relations further towards a mass salary society in which the majority of the population depended upon individual and/or social wage to justify their need from cradle to grace (Jessop 1992, 46).

Critically, it was the military Keynesianism that "jolted the national economy out of the lingering depression at the end of the 1930s" (Skocpol 1980, 198). More importantly, the state of emergency in the US resulted in an overall conciliation of the class struggle between different class fractions and allowed the Keynesian welfare state to became hegemonic. The New Deal legislation subjected the financial class fractions to the strict government regulation and protected productive capitals' expansion from the uncertainties of speculative activities and adjusted the role of finance to the needs of production (Van der Pijl 2015, 45). Financial class fractions opposed Keynesianism, particularly concerning international finance (Duménil and Lévy 2001, 586). The government regulation of the fiscal and monetary realms allowed industrial class fractions to be gain autonomy from financial class fractions as industrialists were able to control inflationary moves and sustain their requirements of productive capitals. In return, big businessmen agreed and tailored the social security and labour legislation which allowed institutionalization of labour unions and class struggle. Elimination of the unemployment and the role of the government in regulating labour market diminished the possibility of fierce resistance within labour as they recognized the ownership of the means of production of the capitalists. Labour and tax reforms solved the previously problematic income distribution. Consolidation of liberal internationalism followed the institutionalization of the Keynesian welfare state and the end of World War II. The liberal international world order established after the world war enabled the hegemonic expansion of the Keynesian welfare state and free trade internationally. However, this consolidation of the social forces did not last long as neoliberal opposition emerged during the 1960s. The final chapter will discuss the establishment of the liberal international world order, how the American economy financialized and the neoliberal challenges to the American hegemony.

Chapter Seven: Rethinking the decline of American hegemony

The end of the Second World War marked the expansion of the American hegemony internationally. From a neo-Gramscian perspective, this outward expansion occurred in a material, ideological and institutional realms. Unlike the expansion of British hegemony internationally, expansion of American hegemony involved an overarching extension of international institutions that had enabled the hegemonic expansion. Through the formal efforts of the international institutions that have binding rules and informal activities of the American state structure, the hegemony of liberal international bloc expanded Fordist mode of production, the Keynesian welfare state and free trade between 1946 and 1973. However, the 1970s witnessed growing internal and external challenges which resulted in the financialization of the American hegemony. The struggle between productive and monetary class fractions and the role of the American state in this struggle was crucial in the making of financialization and the rise of the neoliberal counter-hegemonic movement in the US. Unlike the British case, this research argues that the American state mediated the struggle between productive and monetary class fractions and successfully bind the capitalist interest behind the neoliberal transnationalism. In this context, this research aims to demonstrate that the financialization of American hegemony did not result in the decline of hegemony. rather, as this research argues reconfiguration of social forces resulted in the transformation of the American hegemony and American led world order.

7.1. Material expansion of the American hegemony and road to financialization

The previous chapter discussed how liberal internationalist historical bloc established as the result of a prolonged domestic class struggle. The New Deal represented how the Keynesian welfare state enabled institutionalization of the Fordist mode of production in the national context. However, until the start of the Second World War, there was a strong base for isolationism in the US that hindered further expansion of American hegemony internationally. Only after the Second World War, the liberal internationalist hegemony was able to expand materially, ideologically and institutionally and establish a global American hegemony characterized by the liberal international world order. As it was the case in the expansion of domestic market, the institutional setting of the liberal international world order aimed to enhance the ability of war-torn economies to consume more and more American mass-produced consumer goods. The main pillars of the American material expansion internationally were the Marshall Plan, Bretton Woods system, and the General Agreement on Tariffs and Trade (GATT). However, these foundations of the liberal international world order underlined the increasing struggle between different class fractions in the US during late 1960s and early 1970s which resulted in with the financialization of the US economy. Hence, the starting point of the hegemonic struggle that led to financialization should be the pillars of the liberal international world order.

The American economy grew by 50 per cent in real terms between 1939 and 1946 (Frieden 2006, 261). As a result of this growth, the US emerged from World War II as the most powerful economic force in the world as the American economy was larger than all the others combined by 1946 (Frieden 2006, 262). However, the devastating effects of the war on many nations threatened the success of the American economy as well as threatened full employment achieved during the war with the release of many millions of soldiers to the labour market. Post-war GDP per person in France, Belgium, Netherlands were less than what it had been in 1939 and in losing sides the situation was even worse (Frieden 2006, 261). The US economy needed markets to sustain its production level during the wartime. However, western Europe and Japan economies required capital, raw material, and import foodstuff. The material expansion of the American hegemony depended on the recovery of the world economy, particularly European economies. The solution was the extension of Keynesian policies internationally and regulate the world economy in a way that would foster mass consumption internationally. While the Marshall Plan provided the necessary funds for material recovery of the war-torn economies, Bretton Woods provided the necessary Keynesianist framework for the world economy, and the GATT provided the necessary institutionalization of the free trade globally.

The Bretton Woods system was one of the most important underlying factors of American expansion internationally. It promised increasing economic growth, low unemployment rates and price stability through regulatory monetary policies. To increase purchasing power of other states, Bretton Woods system allowed all states except the US to devalue their national currencies with the supervision of the IMF. While previously during the British hegemony devaluing currencies in the gold standard perceived as declaration of currency wars "in the Bretton Woods environment it was regarded as a necessary adjustment to increase the ability of struggling economies to export" (Frieden 2006, 270). In return the US promised not to devalue US dollar and became anchor of this system to function by linking other currencies to the US dollar at fixed exchange rates. Moreover, this currency stability allowed other governments to adapt their national policies to encourage trade and long-term investments while sustaining low unemployment rates. However, the flow of capital, especially flow of short-term speculative capital was prohibited by the Bretton Woods system. As the short-term private lending disappeared, the international investments took form of productive long-term investments with the Foreign Direct Investments (FDI). The typical investor of the bondholder and bankers who lent money to foreign governments and corporations was replaced by the corporations that built factories in foreign nations (Frieden 2006, 293). By 1950 investments of the American multinational corporations (MNC) was twice as large as portfolio investment in foreign loans and stocks; by 1970 it was four times as large

(Frieden 2006, 293). By 1973 MNCs had invested two hundred billion dollars around the world, of which majority in the advanced industrial countries (Frieden 2006, 293). However, in 1948 the world economy was far from recovery and needed a comprehensive program of public spending just as the WPA of the US in 1930s that would jumpstart the economic recovery of the world economy.

The Economic Recovery Plan launched by the Secretary of State Marshall aimed to start up the economic program envisioned in the Bretton Woods by providing 13.5 billion to Europe and another half-billion dollar to Japan (Frieden 2006, 267). The total cost of the program was more than five per cent of America's GDP; to put this number into perspective in 2018, five per cent of America's GDP is roughly a trillion-dollar. The Marshall Plan provided the necessary fund for further investment and complemented the Bretton Woods which provided the necessary monetary stability by regulating capital flow. However, the countries that were going to receive these funds required to negotiate among themselves through the Organization for European Economic Cooperation on the distribution of these funds (Cox 1987, 214). This condition was the second step of creating strong market forces in Western Europe after creating the IMF to control currency stability. Moreover, this economic start-up was alone would not survive as the Western European countries had to sell more to the US to be able to pay much needed US imports. The GATT solved the problem of protectionism that had underlined the contestation between different class fractions and nations and allowed the Marshall Plan to work as intended.

The liberalization of the world trade that was aimed by the Bretton Woods system was ensured by the GATT. After the American protectionists resisted the establishment of the International Trade Organization (ITO) the US was unable to create an institution that would institutionalize the rules of the free trade. It was the other Western industrialized countries that created an interim GATT in 1947 that reduced many trade barriers and a venue to discuss further trade liberalization by signing over a hundred agreements, affecting more than forty-five thousand tariffs that covered about half of the world trade (Frieden 2006, 288). The basic premise of the GATT was to eliminate protection and retaliation in the world trade by ensuring non-discrimination, unconditional reciprocity, and most favoured-Nation treatment (Gilpin 2002, 180). The result was an exponential growth of the world trade after the 1950s. "With the reduction of trade barriers, international grew at an annual rate of 7 per cent between 1948-1973" (Gilpin 2002, 180) and "[o]ver the first twenty-five post-war years the volume of world trade doubled every ten years" (Frieden 2006, 289). Between 1950 and 1973, American exports increased from $13 billion to $71 billion, which would translate into from $56 billion to $230 billion in nominal value in 2000 dollars (Frieden 2006, 289). However, one problem that the GATT was unable to solve was the special conditions of the agricultural production. US trade policy remained primarily "shaped by domestic influences" which were structured by "the way the American state had been internationalized" (Panitch and Gindin 2012, 94). First, as the material expansion of the American state involved with the expansion of mass production and mass consumption of manufactured goods internationally, this process overlooked the liberalization of the agricultural trade. As a result, agricultural productive forces remained powerful interest groups in almost all countries and agricultural production remained out of the GATT jurisdiction (Pigman 2002, 268). Moreover, the GATT had no authority over the customs unions and other preferential agreements which had dire consequences on the American trade deficit by the establishment of a European single market.

The post-war world order which lasted in 1973 was extraordinarily successful. The post-war international monetary system provided necessary currency stability by the fixed exchange system and regulated the speculative outflows and pushed international capital towards productive means internationally. The GATT marked the much necessary trade liberalization for the material expansion of the American hegemony by removing the possibility of the trade wars. The Marshall Plan built upon the monetary and trade stability that enhanced the productivity of the western European countries and allowed those countries to embed themselves American trade cycle. However, starting in 1960s and climaxed in the early 1970s, American led liberal international world order failed to sustain the needs of the American trade cycle. The most important factors behind the success of the material expansion of American hegemony became the underlying factor of its weakness. The international monetary stability that the Bretton Woods system provided was based on the entrenched position of the US dollar that created a tension between domestic interest that supported devaluation of the currency to increase their profitability and the international commitments that the US had undertaken during post-war. The GATT reduced the tariff duties all around the world and by the late 1960s US tariff duties had been reduced to 10 per cent overall (Panitch and Gindin 2012, 224). However, the pre-condition for receiving American assistance for increased cooperation among the western European countries was so successful that European countries established a common market which lowered tariff barriers among the member nations without including the US. As a result, the productive capital in the US had to increase their foreign investments in the form of MNCs to bypass the protective tariff barriers. However, these processes tipped off the balance between the hegemonic liberal internationalist and the counter-hegemonic neoliberal historical bloc.

First, as the result of the trade liberalization, western Europe's exports had risen to 27 billion dollars by 1951, a massive surge from 8 billion in 1946 (Frieden 2006, 268). As the western European economies recovered as the Marshall Plan intended, the trade balance between US and recovering economies diminished in favour of the western European economies. In the late 1960s, the first lasting deficits in the balance of trade appeared in US since the post-war world order established in 1946 (Duménil and Lévy 2005, 10). Underlying factor behind this trade deficit was the establishment of the European Economic Community (EEC) in 1957 which was encouraged by the American led word order. However, with the establishment of a single market jeopardized trade liberalization aimed by the GATT. As the increasing competition for the consumer durables and the increasing protection within single market and custom unions, American corporations had to produce within the European single market to be able to bypass protective tariffs. By the late 1960s, the American automobile corporations had more than half the British market and 40 per cent of Germany's and Ford and GM were the second and third *European* car manufacturers after Fiat (Frieden 2006, 294-5). By 1973 five of the top ten American companies made 80 per cent or more of their profits abroad (Frieden 2006, 293). This increasing internationalization of American production had intensified the trade deficit of the US. As the surpluses of US dollars accumulated in the rest of the world, which undermined the most important factor of the American led world order; the anchoring role of the US dollar in the world economy. The US had to devalue the dollar with respect to gold or there was a risk that other countries might run amok the US Treasury u simply demanding the gold return of the US dollars they held in their central banks.

Secondly, increasing the internationalization of American corporations increased the scale of their financial requirements to continue expanding internationally. Multinational American corporations needed financial institutions allowing for the circulation of funds internationally which should have been ensured by the international institutions, yet private banks performed that task (Duménil and Lévy 2001, 587). Those big multinational corporations pushed the US government to ease the tight regulation of the financial intermediaries as they required financial services (Isenberg 2000, 261). One of the financial innovations that were used to bypass state regulation was the entry of non-bank institutions into banking operations such as Ford Credit Company that was established to finance Ford's multinational operation internationally (Orhangazi 2008, 32). Commercial banks, on the other hand, bypassed monetary tightening and increased their autonomy by opening branches in London and actively involving the Eurodollar market which was established as the result of the immense supply of US dollars in Europe (Isenberg 2000, 254). The US commercial banks were able to free from the constraints of the Glass-Steagall Act which was one of the cornerstones of the Keynesian compromise. These two developments had led to the financialization of the American economy.

As discussed earlier one indication of financialization is "the extent to which non-financial firms derive revenues from financial investments as opposed to productive activities" (Krippner 2005, 279). In addition to those non-financial banks, American commercial banks expanded the range and rate of activities by opening branches in other financial centres. This increasing internationalization of American finance started in the 1960s with the decline of direct American foreign aid which created pressures on foreign governments to find ways to get private credits (Panitch and Gindin 2008, 28). The internationalization of American finance, further intensified by the FEDs switch to a tight monetary policy in 1966 to fight rising inflation which they believed was the result of the rising wages of workers (Isenberg 2000, 53). As the interest rates rose US dollars in the Eurodollar market recycled to the US which allowed the commercial banks to increase their activities while the working class suffered from wage reduction and mass unemployment waves. By the late 1970s, London has 275 foreign banks due to the tempting Eurodollar market, Hong Kong has 105, Luxemburg 100, Singapore has 95 compared to 100 foreign banks New York (Gray and Gray 1981, 50). This expansion was fundamentally an extension of the MNC movement after the Second World War in international finance. Gray and Gray (1981, 38) defines this development as the application of MNC incentives to the multinational banks. The rate of financial firms to non-financial firms increased exponentially from around 10 per cent in the 1950s to approximately 20 per cent in the 1970s and by the 1990s, at the end of the neoliberal transformation, it peaked to 45 per cent (Orhangazi 2008, 137). The growth of London and US commercial banks and US MNCs operating with off-shore funds created growing speculative pressures against the Bretton Woods system (Gowan 1999, 18).

The situation worsened during the 1970s, as the world economy faced a structural crisis in the wage of declining profit rates, diminished growth rates, cumulative inflation and a wave of unemployment (Duménil and Lévy 2005, 9). The Nixon administration unilaterally put an end to the convertibility of the US dollar in August 1971, introducing floating exchange rate and 10 per cent surcharge on imports, which could be seen as "the single most important date marking the end of Atlantic integration under American hegemony" (van der Pijl 2012, 257). As finance capital emerged as a counter-hegemonic movement in the US, it ran up against labour militancy and southern agriculturalists who were seeking protection from the internationalization. Since the American state once again relied on the functioning of private finance nationally and internationally, it had to curtail the power of the labour (Panitch and Gindin 2008, 29). During the period, "there has been profound institutional and political change, above all, deregulation of labour markets and the financial system, while neoliberalism has replaced Keynesianism" (Lapavitsas 2009, 124). The Keynesian objective of full employment was replaced by the preservation of the income and wealth of the owners of capital, which dropped dramatically to the lowest in the century during the 1970s, by the strict control of the general levels of prices (Duménil and Lévy 2005, 12-3). The rise of neoliberal historical bloc and unification of the interests of industrial and monetary class fractions in the framework of finance capital was an attempt to reverse the decline of their wealth and increase their profitability.

Volcker shock in the late 1970s, which will be discussed in the third section of this chapter, created the conditions for a new discipline of labour imposed by neoliberalism through rising inflation, the rising wave of unemployment, and blatant attacks on the final pieces of the welfare state. It was not an economic policy change but a political one, which, according to Volcker himself represents the "triumph of central banking" (Panitch and Gindin 2008, 30). However, during the 1980s, "finance took control of the central banks, monetary policy became a crucial instrument in the hands of finance, for enforcing policies favourable to its own interests" (Duménil and Lévy 2005, 13). Finance capital was "neither 'financiers' extracting interest at the expense of industrial profits nor 'bankers' controlling corporations" but they were "on the board of the largest banks and corporations preside over the banks' investments as creditors and shareholders, organizing production, sales, and financing and appropriating the profits of their integrated activities" (Zeitlin 1976, 900). Under neoliberalism, the financial regime plays the central role that used to be attributed to the wage-labour nexus under Fordism (Boyer 2000, 112). This shift in the institutional forms of the welfare state was necessary to add the financial expropriation to the exploitation that occurs in the production process, which allows banks to extract significant profits from wages as the result of their borrowing for housing and pensions and healthcare and education since the welfare state was undermined by the financial capital (Lapavitsas 2009, 131).

By 1980s new organization of the production break from Taylorism and Fordism which meant the return of skilled workers to the primary production area (Tomaney 1994, 171). As the consumer patterns changed and diversified, the demand for the consumer durables was not as important as it used to be in the Fordist production regime. This era witnessed the switch to post-Fordism which can be defined as a "flexible production process based on flexible machines or systems and appropriately flexible workforce" (Jessop 2004, 19). Finance capital hoped to overcome the increasing working-class resistance, the issue of profitability, to meet the growing needs of new consumer demands through a flexible production process. In this phase, economies of scope replaced economies of scale, and instead of focusing on the internal market, trade liberalization allowed producers to focus on the international market (Jessop 1994, 259). The Keynesian welfare state in this period transformed into Schumpeterian workfare state which aimed to

> promote production, and market innovation in open economies, in order to strengthen as far as possible, the structural competitiveness of the national economy by intervening supply-side, and to subordinate social policy to the needs of labour market flexibility and/or to constraints of international competition. (Jessop 1996, 176).

This transformation in the realm of production could only be successful through internationalizing of the neoliberal state in which national policies and practices have been adjusted to the exigencies of the world economy of international production (Cox 1987, 253). As we have seen previously the state was crucial in the internal expansion of the Fordist mode of production through implementing domestic Keynesian welfare policies. However, in post-Fordism, the role of national forces became secondary to the international forces (Moulaert et. al. 1989, 19). The newly established neoliberal hegemony in the US used the floating exchange rates to be able to expand internationally. The growth of MNBs and material expansion of the neoliberalism allowed the deficits of oil-importing nations to be financed without a prolonged financial crisis (Gray and Gray 1981, 58). Moreover, those 'petrodollars' accumulated by oil-producing companies during oil shocks were recycled to the third world countries that needed a vast amount of capital to further integrate them to the neoliberal world order through big New York and London investment banks (Gowan 1999, 20). By the late 1980s, the debt of 15 states to the 9 biggest banks of the US was approximately $410 billion and almost half of their GDPs (Russel 2005, 210: cited in Orhangazi 2008, 146-7).

7.2. The Liberal internationalism vs Neoliberalism

As discussed in the previous chapter while Wilson pursued a progressive liberal internationalism, FDR pursued a more pragmatic version that relied heavily on shaping and being shaped by public opinion. The 33rd president of the United States, Harry S. Truman's perception of liberal internationalism was also slightly different than his predecessor which shaped the institutionalization of the post-war liberal international world order. After the war, he declared that "whether we like or not, the future pattern of economic relations depends upon us" (Spalding 2006, 88). The basis of the post-war world order was open trade and great power cooperation (Ikenberry 2009, 76), which was based on the respect liberal norms as non-aggression, and democratic institutions (Dueck 2004, 3). Ideological background of this world order stemmed from the worrisome experiences of the US intellectuals and key government officials during the Great Depression and how the New Deal and Keynesian welfare state reorganize the domestic economy and ensured social cohesion by continuous growth, full unemployment and regulation of the speculative activities of the financial class fractions. At a critical juncture such as a post-war reorganization of a global economy, "the task was not to get back to 1914 but to build macro foundations, nationally, and internationally" (Skidelsky 2005, 2).

Key figures behind the post-war liberal internationalist ideology were Jacob Viner, an influential academician of the Chicago School who was also an advisor to Secretary of the Treasury Henry Morgenthau Jr. and an important figure of the Council on Foreign Relations which was established by Roosevelt to plan post-war settlement. He believed that governments should prevent major depressions, mass unemployment (Ikenberry 2009, 77). Influenced by Viner's mentorship, Harry D. White climbed up the ranks in the Treasury Department to take the responsibility to shape the US foreign economic policy. White argued in 1942 that

> [t]he theoretical basis for the belief still so widely that interference with trade and with capital and gold movements, etc., are harmful, are hangovers from a nineteenth-century creed, which held that international economic adjustments, if left alone, would work themselves out toward an 'equilibrium' with a minimum of harm to world trade and prosperity. It is doubtful whether that belief was ever sound. (cited in Ikenberry 1993, 162).

Clearly, influential figures that had planned the post-war settlement inclined towards Keynes' ideas. For Keynes, "it was globalisation, carried without adequate macroeconomic management… brought about the collapse of national economies, which were then forced to resort in self-defence to all kinds of protectionist devices" (Skidelsky 2005, 19). In this perspective the world economy would abandon regional currency and trade groupings in favour of openness and trade expansion with commitments of national governments to full employment and economic stabilization (Ikenberry 1993, 155).

To achieve these ends the international character of liberal internationalism was to be more liberal then imperial, which meant that the operation of the world order was limited by the mutually agreed rules and institutions (Ikenberry 2009, 72). Moreover, the State Department of the US was strongly against any form of bilateralism as Secretary Cordell Hull strongly believed that the economic blocs and protectionism were the root cause of the instability during the 1930s (Pollard 1985, 11-2). Against these internationalist ideas of the State Department, Keynesian experts "favoured a world system made up of national capitalism" which focuses predominantly on the national regulation of unemployment and demand management rather than regulating international trade and finance (Block 1977, 36-7). Critically, these experts were not isolationists, rather they wanted to ensure expansionary domestic economic policies and institutions by international arrangements (Ikenberry 1993, 170). Rather what they have envisioned was, in the words of Harry D. White, a "New Deal for a new world" (Steil 2013, 1). Bretton Woods in this respect perceived as both an attempt to bring Keynesian management to the world economy and a commitment to trade expansion (Ikenberry 1993, 176). However, in reality, the expansion of the Keynesian welfarism was not as successful as it was before World War II as we have seen in the previous chapter. As will be seen in the next section, the Keynesian welfare state intensified the class struggle between capitalists and the working-class which resulted in the crisis tendencies of an accumulation from the end of 1950s marked by inflation, unemployment, pauperism, urban decay, and racism (Clark 1990, 24).

Free trade and multilateralism underpinned the success of the material expansion of the American hegemony internationally. The ways in which Fordism expanded internationally through the 1920s and the nature of the Great Depression created the idea of multilateralism as beneficial for the further expansion of capitalism. US policy-makers believed the need for an open trading system that would benefit all and counter the logic of zero-sum competition (Kupchan and Trubowitz 2007, 16). This idea of having a rule-based order that would beneficial to all the participants while limiting the power of the US became the hegemonic ideology later conceptualized by hegemonic stability theory. The basic premise of the HST is the fact that the United States became a provider of public goods-upholding a set of rules and institutions in which other states willingly give up on their sovereign independence but gain new governmental capabilities and access to the public goods provided by the US (Ikenberry 2009, 76-7). As long as those lesser states accept the power of the US and accept the rule-based world order, they would be better off from an open and stable world economy that will remain stable and open by the power invested by the US. In this framework, hegemonic power is solely responsible for the establishment and functioning establishment and functioning of the international order with the help of international institutions which in turn binds the power of the hegemon and creates incentives for lesser states to accept hegemonic leadership (Keohane 1984, 138). This ideology points out how "dominance may be reflected in 'leadership' rather than exploitation" (Snidal 1985, 612). This ideology was appealing to the war-torn economies of the industrialized countries as well as to those that were seeking anti-colonial support of great powers (Hoffman 1995, 165).

Until the 1970s this ideology was really powerful in terms of expansion of Fordist social relations of production internationally as well as boosting open trade possibilities. However, during the 1970s and 1980s, the dominant ideology of an open economic world order consists of national political economies that were linked primarily by an ever-expanding trade focus transformed into what Stephen Gill calls "a transnational liberal economic order" (Gill 1990, 88). And that order was underlined by neoliberal ideology.

7.2.1. Neoliberalism in the making

Neoliberalism is often depicted as the ideology of the free market and private interests as opposed to state involvement in the realm of economics (Duménil and Lévy 2005, 9). However, it was not monolithic and has always had many different strands and currents (Gamble 2019, 4). As the neoliberal ideology may vary in different times and contexts, it is crucial to clarify which context that neoliberalism associated with. This research focuses on the neoliberalism that has developed in the post-war context and institutionalized during the 1970s and 1980s. Within this period neoliberalism has gained ground in academia, especially in terms of an economic ideology. However, its institutionalization was closely related to the rise of neo-conservatism which in a way complemented the economic side of the neoliberal ideology and allowed neoliberal transnational historical bloc to expand internationally throughout the 1980s and 1990s. This section first discusses how neoliberalism emerged as an economic ideology. Secondly, this section will discuss how this economic ideology transformed into a much broader ideology that has had a huge impact on the everyday life of millions of people all around the world.

Economic foundations of the neoliberal ideology laid down in the Chicago School of economics represented by Milton Friedman, George Stigler, Ronald Coase, and Gary Becker all of whom have been awarded the Nobel Prize in economics (Palley 2004, 1). Among those influential economists, Milton Friedman became the figurehead of this counterforce movement against Keynesian hegemony in economics and its strongholds like Harvard (Peck 2010, 82-3). The neoliberal charge against Keynesianism in the realm of the economy was led by Friedman's monetarism which he argues that the rising inflation, the key economic problem of post-war economic world order was a monetary problem resulting from too much money chasing after too few goods (Lapavitsas 2005, 34). One of the reasons for this excess supply of money in the market was the Keynesian welfare state's efforts to raise demand for manufactured outputs by sustaining full employment. Rather, Chicago school claims that the use of monetary and fiscal policy to permanently raise employment merely generates inflation (Palley 2004, 1). Neoliberalism involved not only anti-inflationary ideas but also the removal of all barriers in all markets, especially in the labour market (Panitch and Gindin 2012, 15).

Friedman argued that there is a 'natural rate' of unemployment, and governments should not interfere with this natural functioning of the labour market to fight inflation as the market will adjust to its natural course (Lapavitsas 2005, 34). Supposedly, this natural rate of unemployment is determined by the forces of demand and supply in labour markets (Palley 2004, 5). Moreover, they argued that institutions of social protection could cause unemployment by interfering with the market process as they argued that the worth of wages is based on the productivity and supply of capital and labour (Palley 2004, 1-4). Friedman even opposed government involvement in health and safety, and production standards, arguing that the market itself would be self-policing (Gamble 2019, 3). And since the market economy is self-equilibrating, government intervention is worse than useless – it is counterproductive (Lapavitsas 2005, 34). The motto of this ideology during the 1960s and 1970s was "government is not the solution, the government is the problem" (Panitch and Gindin 2012, 15). Against the 'market failure' thesis of the Keynesians, Chicago School developed 'government failure' thesis which gained strong ground against Keynesianism (Palley 2004 2-8). What Chicago School offered against this government failures were supply-side discourses such as laissez-faire, privatization, liberalization, deregulation, competitiveness, and of monetary orthodoxy in the form of price stability, a balanced budget, and austerity (Apeldoorn and Overbeek 2012, 5). As Andrew Gamble argues correctly, neoliberalism as an ideology successfully facilitated the return of many older forms of economic liberalism, whose "dictums were once again being expressed as common sense" (Gamble 2019, 2).

The ideational project of neoliberalism and the Chicago School of economics were closely synchronized beginning with the post-war economic reconstruction, maturing into a Keynesian critique, and transforming into a governmental project during the inflationary wave of the 1970s (Peck 2010, 83). During this period, it became obvious that neoliberalism was a response to the worker's gains that had been previously achieved under Keynesianism which had become barriers to accumulation from capital's perspective (Panitch and Gindin 2012, 15). In terms of the income distribution, neoliberal ideology targets labour market deregulation by undermining unions, allowing the real value of the minimum wage to fall and creating an insecure employment climate for the labour (Palley 2004, 5). Instead of raising taxes based on income, neoliberalism offered cutting social programs, freezing wages, and privatizing public services and assets (Panitch and Gindin 2012, 165). Moreover, workers disciplined through the internationalization of the production. With the increasing trade liberalization and capital flows, neoliberalists narrowly limited the international competition to a position in which workers employment and job security can only be guaranteed by low cost and high productivity which could only be ensured by the private sector who would be enticed to invest by the prospects of high profits and low taxes (Radice 2005, 96-7). The effects of the internationalization of neoliberalism were not limited to the deregulation of labour market.

Neoliberal globalisation promotes “international interdependence with a minimum of direct state involvement in industrial decisions and a restriction of fiscal and monetary policy” (Cox 1987, 223-4). Moreover, neoliberal globalisation entails a process which standardises and universalises codes of conduct for production, finance, and commerce but more importantly globalisation exports and reproduces stereotypical conditions of the “American way of life” (Colas 2005, 76). Neoliberal globalisation requires consent and involvement of national elites and bourgeoisie everywhere and the complex apparatuses of economic, political, social and cultural hegemonic ideas reshaped in this respect;

> Global media paddle the vacuous consumerism that grips these social classes the world over; poverty is everywhere rebadged as ‘social exclusion’ based on individual inadequacies, and politics are reduced to periodic elections in which near-identical terms of rentier-politicians compete for the right to make comfortable careers out of packaging the masses for exploitation. (Radice 2005, 97).

While in its “liberal guise”, neoliberal globalisation is “the politics constructed from the individual, freedom of choice, the market society, laissez-faire, and minimal government”, its neo-conservative component builds on strong government, hierarchy, and subordination in society, social authoritarianism (Overbeek and van der Pijl 1993, 15). Neoliberalism in the US during the 1980s was strongly associated with authoritarian and conservative regimes all around the world, while it was attacking Keynesian state structure in the name of individualism (Gamble 2019, 5). As Campbell (2005, 189) argues that the fundamental premise of neoliberalism that argues markets operate freely and removing government regulation is, in fact, part of the neoliberal ideology which supports the above arguments.

Finally, neoliberal globalisation involves the active participation of the states all around the world “broadening the meaning of ‘free trade’, so that over more facets of life became subject to market relations, and more and more subject to the discipline of the free movement of capital across national borders” (Panitch and Gindin 2012, 195). States all around the world used “there is no alternative” in their domestic politics to cut welfare, to privatise public ventures, and to deregulate labour markets

(Radice 2005, 97). Neo-conservatism complements neoliberal globalisation by providing domestic governments with ideological support in the form of moral conservatism, xenophobia, law-and-order, the family which provided the basis for a relatively stable electoral coalition (Overbeek and van der Pijl 1993, 15). "It also maintained that the market and not the state was the best guardian of political stability and freedom" (Hoggart 2005, 150). By breaking up the relationship between economic and political and erecting barriers between the economic and political, the neoliberal ideology reduces the class struggle to the elections (MacEwan 2005, 172). The deeper social purposes of the political movements following neoliberal ideology was to "tame the working-class movements" in the name of capital (Hoggart 2005, 150). Workers all around the world are to accept the power of multinationals as the ultimate source of their employment (Radice 2005, 97). The final section will discuss how the inward financialization of the American hegemony and neoliberal globalisation enhanced together and allowed a transformed American led world order to sustain American hegemony.

7.3. Inward financialization and the institutionalization of neoliberalism

The conditions that resulted in the inward financialization and transformation of the social configurations of the liberal institutional historical bloc laid down within the institutional framework established after the Second World War. The very economic and political institutions that highlighted the success of post-war liberal international expansion prepared its own demise. First, the dual role of the state structure in the expansion of the American hegemony after the war which was based on a fine balance between governments' national and international responsibilities withered in the wake of increasing liberal internationalism and reduce the role of the domestic forces in the policymaking. Secondly, the institutionalization of the economic ideology of Keynesianism, particularly deficit spending to increase employment and demand in the form of the Marshall Plan and the US military spending resulted in an ever-increasing inflationary cycle that put the role of the US dollar as the anchor of the international economic stability into question. However, unlike other mainstream studies that claim these are the underlying factors of the decline of American hegemony, this research argues that these factors provided a departure point for the neoliberal historical bloc to establish itself first in the US and later expand internationally by neoliberal globalisation. While the domestic forces underlying the American hegemony have changed between the 1970s and 1990s, the new transnational nature of the American hegemony allowed it to endure, unlike the British hegemony. The most crucial factor in this preservation of hegemonic power is the inward nature of the financialization through petrodollars and increasing foreign investment in the US. This section of the research will briefly discuss the specific institutions that were key for the liberal international expansion. Secondly, how the post-war world order prepared the ways in which liberal international historical bloc was replaced by the neoliberal historical bloc in the US and later transformed into a transnational hegemonic historical bloc in the form of finance capital as conceptualized earlier. Finally, this section will discuss where inward financialization is located in the formation and expansion of the transnational hegemony which has led by American financial and industrial class fractions.

7.3.1. Neoliberalism and inward financialization of American hegemony

As discussed in the first section, the Marshall Plan was crucial in the material expansion of the American hegemony after the war. However, it provided more than economic recovery, trade liberalization, and multilateralism for European countries. It had also involved in shaping the balance among social forces and the emerging configurations of social forces by excluding leftist parties and radical worker unions (Cox 1987, 215). While the plan aimed at the elimination of radical and anti-systematic ideologies in the labour movement, it strongly reasserted the influence of the liberal bourgeoisie by reinforcing their position in key positions in the government (Overbeek and van der Pijl 2012, 150-161). Moreover, the American support of the European integration under liberalist ideology demonstrates the transnationalization of the class relations. Paul Hoffman, who was leading the Committee on Economic Development (CED) during the war which aimed to "avoid the real perils of mass unemployment or mass government employment", after the war export this model to Europe in his capacity as the Marshall Plan administrator (Panitch and Gindin 2012, 80-1). Jean Monnet, a strong believer in economic internationalism and American mass production and mass consumption who had close contacts with America's most important financial and influential figures headed the institution that formulated the Monnet Plan for post-war reconstruction (Frieden 2006, 284-5). Those influential figures played two crucial roles, first, they allowed deeper penetration of the American hegemony to European state structures and secondly, those special relations became foundations of transnationalism when the coordinating agency for economic policies of the western European countries expanded to include Canada, Japan, and the United States and renamed as the Organization for Economic Cooperation (OECD).

Another important institution that has institutionalized American hegemony internationally in the realm of economics was IMF, which quickly turned into 'a tool' which adjust other national economies of other countries to enable American material expansion and liberal internationalist ideology of positive-sum game. Moreover, it was by design pursued austerity measures if welfare measures threaten the balance of payments equilibrium of the lender countries (Cox 1987, 214). The IMF was staffed with officials close to the vies of the US Treasury and employed conditionality of macroeconomic austerity from the beginning (Konings 2008, 45). The struggle between the US State Department and the Treasury was decisive with this outcome and clearly demonstrates that institutional formation of the American hegemony was not purely a Keynesian one. This design of the IMF put the Bretton Woods compromise of "accountability of governments to institutions of the world economy and accountability of governments to domestic opinion for their economic performance and the maintenance of welfare" (Cox 1987, 254-5). This situation had dire ramifications for the production relations in the form of working-class resistance. Trade union resistance pushed the production costs higher and as a result, producers reflect those increased costs to the consumers by increasing prices of the outputs which at the end increase inflation. Moreover, when priorities of the government switched from national economic matters to international matters, small and medium businesses, national industries such as steel and mining, and trade unions excluded from existing historical blocs and marginalized (Cox 1987, 263). This led to the disintegration of the liberal internationalist historical bloc in the US even before there was a serious neoliberal challenge.

As the US balance of payments emerged in the late 1950s, the US Treasury aimed for further internationalization to preserve the dollar's international role. Since the devaluation of the dollar was prohibited by the Bretton Woods the Treasury set up a network of credit swaps among European Central Banks, the General Arrangement to Borrow (GAB), and the gold pool as well as issuing foreign currency denominated US Treasury securities (Newstadt 2008, 77). The Gold Pool was an arrangement that demonstrates post-war liberal internationalism, which sought to share the cost of maintaining the Bretton Woods regime by the European central banks rather than depleting US gold reserves (Eichengreen 2004, 47). The Gold Pool worked effectively for almost seven years but collapsed due to increasing disfunction within the liberal international world order where states that were participants in this system exchanged their excess dollars for gold. However, the consequences of the collapse of the Gold Pool were important. First, it led to the fall of the Bretton Woods system by undermining the anchorage position of the dollar and eventually President Richard Nixon few months after the first balance of trade deficit since the World War II suspend gold convertibility of the dollar after understanding French and British intentions to convert dollar into gold (Bordo et. al. 2017, 2). On the other hand, this experience showed that the interdependence between national economies for the sake of the international economy increased drastically. Through the Gold Pool measures, the US Treasury developed substantive links with European monetary authorities into the Treasury securities market (Newstadt 2008, 77).

While pre-1973 experience shows that there was a growing interdependence among the key government figures due to the increasing role of the international economy over the national economy, rapid internationalization of production created transnational ties between American and European capitalist class fractions. As the US capitalists were unable to reverse the gains of the working classes during the 1950s, and the increasing production costs in the wake of profitability crisis, as well as establishment of a European common market that would increase the tariff walls against American products, American productive capital increasingly flow towards Europe in the form of MNCs. The expansion of the MNCs required both formal and informal actions from American capitalists and state to institutionalize Fordism in Europe. While the Marshall Plan prepared the conditions for European integration and an integrated market, informally realisation of Fordism and American way of life in Europe was one of the primary aims of the Ford Foundation, with intimate links with the US government, and particularly the Central Intelligence Agency (CIA) (Clark 1990, 20). The CIA also funded the political isolation of Communist parties and unions, while AFL played an important role in establishing non-communist unions as a part of the institutionalization of the labour relation suited to the ideology of productivism which aimed superseding class conflict with economic growth (Panitch and Gindin 2012, 98). However, this one-way internationalization of production came to an end by the end of the 1960s with the growing number of European multinationals investing in the US market. While the growth of European companies interpreted as a decay in the productivity of the industrial base of the US and led to the decline of American hegemony, in reality, this two-way development forged ties with American and European capitalists that actually reinforced the material foundation of the American hegemony (Panitch and Gindin 2012, 115).

The creation of the informal Eurodollar market by the private financial institutions in London marked a crucial moment in the internationalization of American private finance. Heavily regulated by the New Deal and later post-war world order, American finance fought for its previous glorious day in the 1920s, especially in international activities. Following the expansion of MNCs in both sides of the Atlantic, new international finance developed avoiding domestic regulation and control (Duménil and Lévy 2001, 587). London's Eurodollar market provided the necessary circulation of the funds internationally to meet the increasing trade and FDI (Panitch and Gindin 2012, 118). As the American finance set loose from the regulations, they rushed to and dominate the Eurodollar market. The Americanization of the Eurodollar market was followed by the entry of more American banks into Europe, which furthered institutionalization of American banking techniques and expertise of US commercial banks (Panitch and Gindin 2012, 118). A major reason for this expansion of the American banks in the Euromarkets was to import funds and secure funding for their domestic operations (Konings 2008, 60). In other words, the outward movement of financial capital was not a one-way movement. Rather, American outward financialization during the 1960s was cyclical financialization which sustains domestic expansion by the outward/inward movement of the financial capital.

The outward movement of capital in the forms of MNCs and increasing military expenditure intensified inflationary problems starting from the 1960s. The most important cause of the economic crisis starting in the 1970s was the decline in profit rates within major capitalist countries. However, this crisis was not a form of crisis in Fordism, but it was the crisis of the Keynesian welfare state which failed to sustain Fordist social relations of production. As we have seen above the Keynesian framework intensified the problems.

> The rapid growth of state expenditure imposed a growing unproductive drain on profits. Expansionary policies fuelled inflationary pressures. Growing state intervention encouraged popular political mobilisation and political economic decision making (Clark 1990, 24).

Neoliberalism was arisen out of a response to the crisis of Keynesianism and focused mainly on stabilizing the world economy and forge a transnational historical bloc that would expand tenets of neoliberalism globally.

1970s marked the transformation of the American hegemony, replacement of the liberal internationalist historical bloc with the neoliberal historical bloc. As discussed in the ideology section, this phase of the American hegemony accompanied by deregulation, direct confrontation with worker movements and unions, and transformation of the Keynesian welfare state to the neoliberal state which targeted price stability before full employment (Duménil and Lévy 2001, 587). The demise of the liberal international world order started with the end of the Bretton Woods system of fixed exchange rates. The growing concerns for the trade balance deficits increased the protectionist sentiments in the US politics. The organized labour, agricultural South, and Northwest, and small business supported protectionism against increasing foreign competition in the US markets. One of the first attempts to revive protectionism in the US was Burke-Hartke bill which practically aimed to raise tariffs on dutiable imports from 6.8 per cent to 19.6 per cent (Magee 1972, 692; cited in Irwin 2012, 5). Even though the bill has never seen the Senate floor, it started building a domestic pressure to solve the American vulnerability by protectionism. It was this mounting political pressure when the Nixon administration came into office in 1969, liberal internationalism was under attack of emerging protectionism. Nixon's overtly played to these rising sentiments and clearly took a mercantilist state on trade issues especially concerning South. The goal of the Nixon administration was to generate domestic political support and stimulate domestic employment growth by expanding exports and restricting imports especially for the Southern cotton textile producers (Irwin 2012, 5). Moreover, Treasury Secretary John Connally wanted to take proactive and effective action instead of getting pressurized by other countries' exchange requests and facing run on US gold reserves (Irwin 2012, 7-8). Instead what he offered to the Nixon government was "foreigners are out to screw us, our job is to screw them first" (Odell 1982, 263).

By early 1971, the US Treasury believed that only possible measures for US to take was "(i) suspension of gold convertibility; (ii) imposition of trade restrictions; (iii)diplomatic and financial intervention to frustrate foreign activities which interfere with the attainment of our objective; and (iv) reduction of the US military presence in Europe and Japan" (Foreign Relations of the United States 2001, 424-25; cited in Irwin 2012, 8). Connally suggested not only gold convertibility to Nixon but also a ten per cent import surcharge which delighted Nixon as it suited his domestic political goals (Ohlmacher 2009, 9). Moreover, the decision-making process of the closing the gold window was dominantly consisted of participants from the Treasury, Fed, Office of Management and Budget, Council of Economic Advisers, Council on International Economic Policy, while the State Department was not invited to the Camp David meeting where Nixon decided to close the gold window (Irwin 2012, 12). This situation reflects the decreasing importance of the State Department, which was the most important actor during the post-war creation of the liberal international world order. Paul Volcker, the Undersecretary of the Treasury recalls the focal point of the meeting as the import surcharge, which he believes was largely "a matter of the economists against the politicians, and the outcome wasn't really close" (Volcker and Gyohten 1992, 78). Chairman of the FED insisted on greater austerity and more inflation control and urged the president to remember the consequences of loosing increased economic interdependence (Frieden 2006, 341). Clearly, Nixon convinced by the arguments of Connally on the political ramifications of the import surcharge as he bitterly remembers the political consequences of economic recession.

On August 15, 1971, Nixon took the dollar off gold and strike a massive blow to the Bretton Woods system. Even though Henry Kissinger, National Security Advisor, warned the ramifications of the import surcharge as increased international tensions and preparations for retaliatory measures, Nixon and Connally were right about the increasing support for domestic protectionism as a poll indicated that 71 per cent of American approved the increasing tariffs (Harris Survey 1975, 184; cited in Irwin 2012, 14). Neoliberal scholars, on the other hand, led by Milton Friedman and Robert Triffin was critical of the import surcharge based on productivity and protectionism (Irwin 2012, 24). However, Nixon's intentions were never to start a trade war, he was rather enjoying his popularity in the constituencies and he believed that other states would come to terms offered by Connally during the IMF annual meeting in 1971. Connally suggested the removal of the import surcharge if other governments dismantled trade barriers (Leeson 2003, 138). While the Nixon administration uses import surcharges as leverage internationally, it removed increasing protectionist sentiments as the Burke-Hartke legislation destroyed and never saw House or Senate floor. End of the fixed exchange rate and increase in free trade after removing the risks of protectionism allowed US economic policy to switch from the pursuit of macroeconomic policy to sustain full employment which Friedman argues have 'natural' limitations for capitalist expansion.

The fatal blow to the post-war economic world order and the foundations of the neoliberal world order is dated back in 1973. After the collapse of the fixed exchange rate, governments all around the world were free to adjust their economies and the world economy between 1970 and 1973 surged as industrial production in major economies rose 15 to 25 per cent (Frieden 2006, 364). However, the crisis during the early 1970s also caused the deregulation of speculative capital class fractions which pressured western European and Japanese governments to adopt floating exchange rates by March 1973 due to their inability to unilaterally control capital (Helleiner 1996, 103). This was a crucial development since only the US government gained an ability to move the exchange price of the dollar against other currencies by huge amounts without suffering the economic consequences (Gowan 1999, 20). Moreover, this transformation became the basis of the new international monetary system in which the balance of payments deficits became ever less concerned for the US (Konings 2008, 60). The Nixon administration realized the way in which the US state could use expanding private financial markets "as a political multiplier of the impact of US treasury moves with the dollar" (Gowan 1999, 21). The US was able to afford more expansionary policy because of its ability to bypass the payments deficit. As a result of American expansionary policy, economic growth increased in the world. "In turn, higher growth and a cheaper dollar managed to raise the gross industrial investment rate, slowing down investment abroad by American multinationals and attracting foreign investment to the United States" (Parboni 1986, 8).

Moreover, the Nixon administration planned to increase the interdependence of other advanced industries to this new monetary system by advising the OPEC to jack up prices while US officials have planned the role of the US private financial institutions to recycle the petrodollars (Gowan 1999, 21). During the oil crisis, the Treasury refused proposals for multilateral recycling mechanisms of the petrodollars and insisted on expanding the level of foreign lending and internationalization of the operations of US banks (Sarai 2008, 79). This expansion and internationalization of private financial capital immensely increased the interdependence of developing countries to the emerging global financial system as the number of loans builds up massively. The growing centrality of the American state's role in global capitalism throughout the 1970s was not independent of the growing importance of the US dollar, as more and more capital flowed into the US after the demise of Bretton Woods (Panitch and Gindin 1999, 147). As a result of inward financialization "the foreign purchase of Treasury securities, particularly bills, grew steadily throughout the 1970s, averaging $10.5 billion per year" (Aquanno 2008, 124). Throughout the 1970s, the American government builds a new world order based on the increasing dominance of the US dollar and free flow of capital that have enhanced the power of their currency. The result was increasing material expansion all around the world, at the expense of labour and Third World countries.

The monetarist intervention of the US FED in 1979 under Paul Volcker "threw the aspirations of Third World countries to credit-finance their industrialization plans into reverse" (van der Pijl 2012, xi). The tight monetary regime by increasing interest rates also set the stage for the policy which imposed class discipline and allowed major capitalist states to institutionalize neoliberalism in their national contexts (Panitch and Gindin 2012, 14). While in the cases of the US and Britain this process has employed neo-conservatism, in other places it relied on authoritarian regimes. Therefore, it is not possible to talk about a single ideo-typical institutionalization of neoliberalism in the national context. However, the Volcker Shock ensured the anchorage status of the US dollar which in return internationalized hegemonic ideas of free trade, free movement of capital, and promoted neoliberal social relations of production. Moreover, the ascendency of the FED over the decision making of economic issues and the increasing role of central banks during this period has led to the separation of economics and politics and established the economic orthodoxy of the free market once again. The inward financialization registered and extended by the power of the American state was so successful that the total foreign ownership of US public debt securities increased from $129.7 billion to $458.4 billion (Aquanno 2008, 127). This process allowed the American hegemony to arrest its decline in the productivity in the national context as neoliberalism reduced the importance of a national industrial base to a matter of electoral threat. However, the old balance of social forces has shifted drastically as the powerful agricultural class fractions lost their electoral leverage over the government.

The struggle between Keynesianism and neoliberalism resulted in a new social relations of production, forms of state and world order. The period from the early 1970s to the early 1990s witnessed the institutionalization of hegemonic ideas of the neoliberalism in the US, and simultaneously expanded internationally. The fundamental notion of the neoliberal hegemony was the notion of minimal state, whose primary function were to secure macroeconomic stability through the national and international financial institutions (Williamson 1990). However, even this notion of minimal state was employed through extensive involvement of the US state apparatuses in the US and transforming role of the international institutions, especially the IMF, internationally. In this context, Washington Consensus marks the expansion of the neoliberal historical bloc in the US internationally. Even though the neoliberal intellectuals treated the Washington Consensus as “an intellectual product” (Babb 2013, 269), serving purely in economic terms, as framed earlier it also was a political expansion. As a result, a systematic programme of decreasing state involvement in the economy through trade liberalization, privatisation, reduced public spending, deregulation of the financial market was pushed internationally by the transnational historical bloc after the Washington Consensus (Öniş and Şenses 2005, 264).

William Robinson (2006) questions the role of the state in the expansion of neoliberal hegemony and its relationship with the US. He argues that the state structure around the world was captured by transnational capitalist classes during the expansion of neoliberalism. However, as demonstrated earlier the US state apparatuses intervened heavily in the establishment of the neoliberal hegemony in the US. Moreover, states all around the world promoted, even forced, the globalised expansion of capital in general and finance in particular (Fine and Saad-Filho 2014). Critically, the coercive use of the state power was used against the working-classes to break their resistance in order to demolish welfare state. On the other hand, neoliberal historical bloc in the US managed to create a web of links in other states and transnationalized their influence by providing leadership to national capitalist historical blocs. This leadership was provided by the economic experts who trained in the American universities by the neoliberal intellectuals. Those experts served in different countries as the hegemonic agent of the neoliberalism. Throughout the developing world finance ministers, senior officials of the central banks, even in some cases heads of the states became the vanguard of the transnational historical bloc. These policymakers tended to be closely connected to the international financial institutions, international economics profession, and to structurally homologous policymakers in other countries (Babb 2013, 286).

To conclude, the institutionalization of the neoliberalism between 1970 and 1990 by the crucial role played by the international financial institutions, transnational managerial class, and the US state apparatuses by employing coercive and consensual means allowed inward financialization of the American hegemony. Inward financialization in turn, provided the necessary material conditions to sustain not only power of the US, but also empowered the international finance which elevated to a critical position. As will be discussed in the conclusion chapter the continuity of the American hegemony depends on the actions of not only the US anymore, but also to the actions of the international finance as American hegemony transnationalized after experiencing inward financialization.

7.4. Conclusion

This chapter, first, discusses the hegemonic expansion of the liberal internationalist historical bloc in the US and expansion of Keynesian policies and Keynesian welfare state internationally. The basic material premise of this hegemonic order is that the state is responsible on fostering the demand by regulating the economy and using public spending. Since, the dominant economic view was that the underconsumption have led to the Great Depression, the solution was the Keynesian welfare state. After the Second World War, the American hegemony had the opportunity to thinker the world order in a way to sustain and enhance liberal internationalist historical bloc, since a global trade liberalization ensures the success of hegemonic historical bloc and creates necessary material accumulation for the state to sustain social cohesion through a welfare system. However, with the increasing class-struggle, between productive and non-productive class fractions, and working class and capitalists led to the disintegration of the hegemonic historical bloc.

While previously restrained monetary class fractions have gained more independence from the regulatory constraints, the intensity of the class struggle between monetary and productive class fractions increased. On the other hand, the Chicago School provided the necessary ideational backgrounds to attack Keynesianism for the money class fractions. Ideationally not innovative, but politically creative neoliberal intellectuals raised an army of intellectuals, experts, academicians all around the world. The power structure of the state apparatuses in the US have changed with the increasing problems that Keynesian policies posited. Formerly powerful State Department lost its power to the US Treasury whose ranks have been filled with the followers of Chicago School. As the US failed to sustain its budget deficit and the basic contours of the post-Second World Order, the state apparatuses pushed for an inward financialization which hindered consensual aspects of the US power but sustained the material basis and created the counter-hegemonic movement within itself rather than posed from outside. As discussed in detail, the end of the Bretton Woods system marked the birth of a new hegemonic order under the neoliberal historical bloc in the US.

The fundamental premise of this new world order was the fact that as long as the US dollar remains the fiat currency in which international banking assets are denominated, the US could sustain financial expansion internationally. However, unlike many (Gowan 1999; Panitch and Konings 2008; Panitch and Gindin 2012) the role of the US dollar and the inward financialization have not been sustained by the coercive apparatuses that the US use. Rather the material expansion of the US required a hegemonic ideological and institutional framework that would allow this expansion to be consensual rather than purely coercive. These studies miss the role of the transnational hegemonic historical bloc, this thesis argues that it is the transnational nature of the American hegemony that sustains American productive and non-productive capital. While internationalization of the production processes allowed the American productive capital to avoid working class resistance at home and solve the accumulation crisis by saving dearly from labour, money capital enjoyed financing the debt of other states which in turn allowed them to provide more capitalist credit not only for the productive forces but also fuelled the capitalist consumption at home, which helped the US economy to thrive. However, the role of the US state apparatuses as well as the international financial institutions are critical in sustaining this delicate balance between class forces as well as the legitimacy of the American led world order.

Because of the transnational nature of the American hegemony, the impact of the US state apparatuses are also transnationalized. While their primary goal is to sustain social cohesion between different class fractions and protect the general interest without compromising the capitalist interest, their impact has move beyond since 1970s. As discussed in detail in this chapter, role of the US treasury during the budged deficit crisis in the 1970s is a great example of how unfulfilled leadership hurt American hegemony. Removing gold convertibility of the US dollar enabled US to pursue protectionist trade policies unilaterally and resulted in what Hobson (2013) calls ‘benign neglect’. Even though this development has led recovery of national economy, it also has created a political and ideological atmosphere nationally and internationally in which the future and nature the American hegemony came under question. This is one of the many reasons of the mushrooming declinist literature in world. However, as mentioned before rise and decline of hegemony involves long processes of structural and intellectual change. On the other hand, increasing usage of coercive methods shows that the world order that have transpired during the 1970s stepped towards a non-hegemonic way as Stephen Gill argues.

However, even though the US power and its nature have been questioned for the last 40 years now, the intellectual leadership of the US remains. The continuity of the American hegemony rests not only on the relative autonomy of the state structure against the particular interest of different class fractions, but also to the transformation of the neoliberal state and transnational historical bloc since both of them further intensifies class contestation rather than creating a consensus among different class fractions.

Chapter Eight: Conclusion

This research investigates the underlying material, ideological, and institutional factors that led to financialization in Britain and the USA and offer an alternative answer to the question of why British hegemony declined after the financialization process while American hegemony maintained its power after financialization. To answer the research question of this thesis, this research uses process tracing first in the national context and after in the international context. Moreover, by tracing the process of social change, this research can use the within-case method to demonstrate the causal links that have led to financialization in both cases. Secondly, by comparing the financialization periods of Britain (1870-1890) and the USA (1970-1990), this research offers a critical analysis of the different outcomes of the financialization processes. This research offers a fresh neo-Gramscian conceptualization of financialization to explain the different outcomes of the financialization. Unlike other declinist theses in the literature, this approach "does not take institutions and social and power relations for granted but calls them into question by concerning itself with their origins and whether they might be in the process of changing" (Cox 1981, 129).

The Free Trade historical bloc became hegemonic in Britain between 1815 and 1846. Within this period money capital transformed from a non-productive accumulation regime that predominantly profited from Britain's war-making, to finance capital that integrated the totality of other capitalist class fractions interest by providing a productive accumulation regime that had depended on financing national and international capitalist projects that benefited all capitalist class fractions. Previously hegemonic Mercantilist historical bloc decisively lost the hegemonic struggle against the Free Trade historical bloc within the material, ideological and institutional realms, and the previously dominant landed aristocracy resolved within newly emerged money class fractions. From a neo-Gramscian perspective, the basis of the material power that Free Trade historical bloc had held stemmed from the free trade social relations of production. This social relations of production had evolved around the orthodox political economy which promoted the comparative advantage ideology that demanded no obstruction within the production realm as well as international trade. Hence, the ideological struggle between the Mercantilist and Free Trade historical bloc focused on the role of the British state on production, trade, and monetary issues. Specifically, the productive, commercial, and monetary privileges that have been granted to the Mercantilist historical bloc by the British state were the main field of the class contestation. This class contestation was best understood by the institutional struggle to repeal those privileges. 1846 in this respect marked the institutionalization of the Free Trade ideology within the British state. Parliamentary reforms, repeal of the Corn Laws, and repeal of the Navigation Acts marked the final phase of the rise of British hegemony.

The period between 1846 and 1870 witnessed the apex of British hegemony that was characterized by cosmopolitan free trade. The material underpinning of this free trade world order was the expansion of the British capitalist-credit system in which non-productive capital transformed into productive capital and expanded worldwide by the British trade cycle. At the end of the 1840s cosmopolitan free trade historical bloc was fully institutionalized in Britain and was able to start its expansion abroad and create a world order based on the functioning of uninterrupted free trade and a stable gold standard. The stability that the gold-standard provided allowed financial class fractions to safely export capital abroad and safely finance trade by providing foreign countries the necessary amount of sterling to buy more British manufactured goods without contradicting cosmopolitan free-trade ideology. Material expansion in the form of railway expansion was the underlying productive accumulation regime which was beneficial for different class fractions as well as for the British state. This trade cycle and further implementation of free trade around the world by the bilateral commercial agreements that further institutionalized British led free-trade world order. However, this British economic preponderance created counter-hegemonic movements against the British cosmopolitan free trade world order.

The internationally developed protectionist counter-hegemonic movement was not directly rejecting the benefits of free trade, rather it was against British cosmopolitan free trade system that aimed to preserve its role as the only developed industry. The construction of the national economy proceeded in and through an imperial division of labour in which the mother country exchanged manufactures for the raw materials and agricultural products from its colonies. As a result of the institutionalization of the protectionism from 1870 to 1913, Britain's share of world industrial production fell dramatically and transformed from being 'workshop of the world' into the 'cleaning house of the world'. This transformation spurred a growing resistance against cosmopolitan free trade within Britain itself. On the one side, there was a growing protectionist imperialist that was supported by most of the industrialists, landowners, agricultural producers who would like to raise preferential tariffs for the colonies and protect both colonial producers and British producers from the devastating effects of the protectionist tariffs and respond to the flood of foreign industrial goods on British domestic market by using export subsidies. Free traders, on the other hand, gave up on cosmopolitanism as they came to realize that other states would not follow up on a peaceful free trade regime. However, they clung to the free trade as it was the most suitable ideology to sustain and expand their foreign investments and commercial interests.

After cosmopolitan free trade world order replaced by rival imperialisms, between 1870 and 1914 cosmopolitan free trade was replaced by the free trade imperialism in Britain while internationally protectionism and imperialism were the norm. During this period there were numerous attempts of the counter-hegemonic movements of the protectionists to replace free trade in Britain. On the other hand, financial class fractions realized that a unilateral free trade policy that was reconciled with imperialism with the addition of gold-standard that was the safeguard of their foreign investments had to be protected by the state policy. They were successful in interrupting counter-hegemonic movements because they had the support of civil servants within the state structure, support of the Press to shape the public opinion, and the support of the intellectuals in Academia that was key to create the discourse to attack the counter-hegemonic movements. These developments led to outward financialization of the British economy and the decline of British hegemony.

Outward financialization of the British economy involved a process in which productive accumulation regime established by the previous hegemonic historical bloc into a non-productive accumulation regime over productive ones as the result of the division of interests of the monetary and productive class fraction. Almost all of the British foreign investments took the form of portfolio investments in which British capital assumed no managerial control over their investments which means British foreign investments fuelled further the economic development of the other countries not just by providing the necessary capital but also the managerial independence. These investments in addition to the protectionist tariffs and export subsidies further undermined the productivity and profitability of the British industry. Gold-standard was the other reason behind the outward financialization and decline of the British economy. First, gold-standard ensured monetary stability for the non-productive money capital for expanding their investments. In addition to its positive effect on the increase of the outward movement of the British capital, it hindered the ability of the British state to “provide an artificial stimulus to production by expanding the money supply or depreciating the currency” in times of economic depression (Helleiner 2002, 315).

Outward financialization provided material prosperity for the financial class fractions as well as the British state until 1914. Unilateral free trade resulted in a small reduction in the national income, but it altered the dominant accumulation system as well as how the wealth distribution within the society. As a result, social cohesion provided by the cosmopolitan free trade waned and resulted in a further escalation of the hegemonic struggle between different class fractions. Moreover, the role played by the British state allowed financial class fractions to enjoy more autonomy which at the end undermined the power of the British hegemony internationally. The management of the gold-standard was vital for the financial class interests not solely for safeguarding the portfolio investment but also the transformation of non-industrial capital into international commercial activity for higher returns. As outward financialization intensified, domestic productive capital had a hard time to find necessary capitalist credit to compete with foreign industrial productivity. As a result of outward financialization, industrial interest became subordinate to the financial interest. Critically, the British state apparatuses played a crucial role in the making of outward financialization. As conceptualized earlier, once the British state that created and sustained the social cohesion and elevated the amalgamation of the capitalist interests over particular interests of specific class fractions, it became part and parcel of the hegemonic struggle. The loss of hegemony in Britain was marked by the 1906 elections as particular capitalist interest captured the state as opposed to creation of a new hegemonic historical bloc based on consent of different class fractions. Internationally, the cosmopolitan free trade historical bloc managed to foster free trade without using coercion, especially with other great powers. However, outward financialization involved with tight control of the colonial subjects, as well as coercive use of policy to protect monetary class fractions' interests.

The decline of Britain in that sense provides a great example of how money capital class fractions pursued and got support of the British state for a unilateral free trade regime in order to preserve overseas investments and special interests of money capital class fractions while the industrial base of Britain waned slowly and as a result the British share of world trade and the military power of Britain that is closely related to the industrial base relatively declined compared to challenging nations.

The rise of a hegemonic historical bloc rose to power in the US during the New Deal legislation that institutionalized by the combination of free trade and the Keynesian welfare state. The Keynesian welfare state has two key functions in promoting the material expansion of Fordism. First, it manages aggregate demand through central planning and running a deficit budget when necessary. Secondly, the state must ensure certain levels of demand through the change in the distribution of income by social security measures and collective bargaining. Critically, it was the military Keynesianism during the Second World War that "jolted the national economy out of the lingering depression at the end of the 1930s" (Skocpol 1980, 198). More importantly, the state of emergency in the US resulted in an overall conciliation of the class struggle between different class fractions and allowed the Keynesian welfare state to became hegemonic. The New Deal legislation subjected the financial class fractions to the strict government regulation and protected productive capitals' expansion from the uncertainties of speculative activities and adjusted the role of finance to the needs of production (Van der Pijl 2015, 45). The government regulation of the fiscal and monetary realms allowed industrial class fractions to be gain autonomy from financial class fractions as industrialists were able to control inflationary moves and sustain their requirements of productive capitals. In return, big businessmen agreed and tailored the social security and labour legislation which allowed institutionalization of labour unions and class struggle.

Moreover, a critical difference between the British and American cases is the fact that, in the rise of cosmopolitan free trade productive and non-productive capital unified and totality of the capitalist interest was ensured by the hegemonic historical bloc while the British state apparatuses ensured the necessary institutional changes afterwards. However, in the US case the American state apparatuses laid down the necessary conditions for the productive powers to achieve social hegemony by constraining the money capital, as well as, creating necessary demand for the Fordist producers. In addition, the money capital was always free from state regulation in the US that allowed them to switch from the productive means of accumulation to the non-productive means of accumulation which in turn allowed potential challengers to grow their own counter hegemonic movements and challenge British led world order ideologically. In the US case, the monetary class fractions enjoyed a high level of independence of the US states' actions during the heyday of the isolationism during the 1920s. However, after the Great Depression, change in the state policy towards economy constrained the money capital class fractions and gave them no choice but to use their capital towards productive means. However, the constraints of the monetary class fractions diminished in time because of the structure of the post-war world order.

The post-war economic and political restructuring that was led by the US State Department created an unprecedented level of interdependence between the US and other capitalist states. This situation later has led to transnationalization of the hegemonic historical bloc in the US, as well as, free capital movement between these states which in turn increased autonomy of the monetary class fractions. While the post-war economic settlement was created to sustain the hegemonic social relations of production, it also included its own contradiction that hindered American hegemony. As the production started to thrive in the war-torn capitalist countries, the class struggle in the US have intensified. As the competitive advantage of the US industry started to wane against the economically thriving European states and Japan, the social cohesion that was ensured by the Keynesian expansion of the liberal internationalism put under pressure. Since the Keynesian ideology involves increasing consumption through running budget deficit, they started to run an increasing amount of budget deficit which later was financed by the other capitalist countries to ensure the stability of the world economy. Secondly, as the profit rate of the industrialists started to decline, they attacked the hard-fought rights of the working class in which the American state apparatuses sided with the capitalists. As the American state apparatuses failed to present capitalist interest as the general interest, the material expansion that started during and after the Second World War came to an end.

With the increasing inflation, class antagonism, diminished profitability, and decreasing productivity, the liberal internationalist historical bloc and Keynesian welfare state came under attack of the Chicago School and neoliberalism. As the monetary class fractions started to increase their autonomy as well as profit through their non-productive ventures for the US economy in the Euro-Dollar market, their ties with the Chicago School increased. What Chicago School and its organic intellectuals envisioned during 1950s was to get ready for the time when the state apparatuses need new cadres, as they were certain that the Keynesian economics was doomed for crisis. The intellectuals of the Chicago School envisioned an economic programme based on the ideas of monetarism, deregulation, and market-based reforms in which the role of the state is diminished to the protector of the conditions for the market economy (Jones 2012). On the other hand, its political applications differed from the theoretical positions as the American FED and the international financial institutions gained prominence and led the neoliberal expansion globally. As the crisis of budget deficits led to a point in which the US state apparatuses had to choose, they departed from Keynesianism and promoted neoliberalism. The most important result of this change was the succession of the neoliberal historical bloc to a hegemonic position.

The relative autonomy of the American state apparatuses from capitalist interests allowed them to regulate the change instead of taking a passive position. The US state released the constraints of the money class fractions and appoint them to an informal position in which they assumed the finance of foreign states and circulate foreign capital to the US. Critically this inward capital movement provided the necessary conditions for the American productive capital to further internationalize their production and increase their productivity as a result of the cheap labour in the third world. Moreover, unlike the British case in the American case financial class fractions were used to employ financial capital for both productive and speculative ends that were not harmed but enhanced American power. The investment cycle of the newly transformed American hegemony involved a great deal of transnationalism and increased the dependency of the rest of the world to the US led international financial structure. As a result, instead of challenging American hegemony, those states accepted American leadership in further material expansion. The neoliberal expansion was formally materialized by the Washington Consensus and carried out by the IMF and World Bank by the structural adjustment plans, and informally adopted by other states by the increasing influence of experts who got trained in economics in the US accordingly to the neoliberal ideology.

Inward financialization in the American case, American capital sweep foreign capital and employed them as domestic productive investments unlike the outward financialization of the British hegemony that employed money capital abroad and sustain productive means of other states while had no role in the management or control of its capital ventures. Moreover, unlike Britain, the American state cut its ties with the gold standard and transformed its debt into the world's debt. Finally, neoliberal globalisation internationalization of production that ties the bourgeoisie of the world together while allowing them to repress working-class movements by the strategies other states developed. This transnationalism increased to a point where economic management of other states became part of this transnational historical bloc by employing the critical role played by the people who trained in economics in the US universities in higher positions of the economic management.

Even though the focus of this thesis is not the future of the US power, or how it was changed after 1990, there are some important concluding remarks had to be made. The last quarter of the twentieth century witnessed the domination of a transnational neoliberal hegemony that have led by the US. However, by the turn of the century, resistance against neoliberalism increased and even most influential challenge to the neoliberal ideology and its political application came from Joseph Stiglitz who was a senior official in the World Bank. Stiglitz argued that the economic basis of the Washington Consensus was blinded by the market fundamentalism and shortly thereafter lost his job at the World Bank. The US Treasury who allegedly responsible for this incident, tried to find a middle ground amidst the increasing resistance of the developing countries towards the structural adjustment policies of the IMF. What Anne Ruckert calls "inclusive neoliberalism" is basically incorporate and neutralize the working classes, while sustaining the material and ideological foundations of the inward financialization that still works in favour of the US power. Even though, international financial institutions now have role to decrease poverty thorough its programmes, the basic premises of the neoliberalism, trade liberalization, privatization, limited role of the state in the economy unless it constructs and protects the necessary conditions of the reproduction of the neoliberal social relations of production. And most importantly, financial deregulation, which has been an extreme manifestation of the neoliberal fetish in markets (Jones 2012, 377). However, this deregulation came to a point where it hurt relative autonomy of the State in the US. The ways in which the 2008 Global Economic Crisis carried outdraw a picture of an irresponsible banking class which sparked debates on increasing regulation in the realm of finance.

Finally, the striking resemblance between the British case at the beginning of the twentieth century and the US today might offer a new venue of discussion. In both cases, the growing contestation between the free traders and protectionists might offer a fruitful comparison for the studies of hegemony. While in the British case the hegemonic struggle between different class fractions represented itself as protectionism vs free trade, it is interesting to observe protectionist tendencies of the Trump Administration. In the British case triumph of the free trade imperialism resulted in the decline of British hegemony both materially and ideologically. The time will tell us whether unilateral protectionism of the Trump Administration will differ from the unilateral application of the free trade in the Britain at the beginning of the nineteenth century.

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