The Real Barrier Is Capital Itself: The US, China and the Final Crisis?

PART ONE: THE LADDER

Can an economy keep its financial claims and its military commitments when the capacity to produce has moved elsewhere? If it cannot, what happens to work, to the security of households, and to public services?

By May 2026, the Chinese navy's new amphibious assault ship Sichuan had begun trials and training in the South China Sea.[1] Its electromagnetic catapult brought technology used on the largest US Navy aircraft carriers onto a vessel designed to combine amphibious operations with an air wing expected to include large combat drones. Such aircraft could carry surveillance and strike missions out to sea without putting a pilot aboard each one. China was developing a different way to deploy naval air power, using advanced launching equipment on a type of ship that American amphibious forces did not yet possess.[2] The ship was still undergoing tests, but the industrial ability to build it was already demonstrated.

Sichuan emerged from an industry whose scale the United States had largely surrendered. China State Shipbuilding Corporation alone produced more commercial tonnage in 2024 than the entire American commercial shipbuilding industry had produced since the Second World War. Commercial shipbuilding orders sustain the yards, suppliers and skilled workforce on which military-naval construction also draws.[3] They give China the means to

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[1] China Military Online, "Chinese PLA Navy's First Type 076 Amphibious Assault Ship 'Sichuan' Sets Off for South China Sea for Experimental Training," April 21, 2026, Ministry of National Defense of the People's Republic of China, https://eng.mod.gov.cn/2025xb/N/T/16456412.html. The announcement described further scientific experiments and training following earlier sea trials; it did not announce operational service.

[2] Alex Luck, "Chinese Type 076 Amphibious Assault Ship 'Sichuan' Starts Sea Trials in Shanghai," Naval News, November 14, 2025, https://www.navalnews.com/naval-news/2025/11/chinese-type-076-amphibious-carrier-sichuan-starts-sea-trials/. The analysis identifies the electromagnetic catapult and arrested recovery system, and discusses the expected fixed-wing drone air group. The opening describes a design and prospective capability; testing had not yet established the performance of an operational air wing.

[3] Matthew P. Funaiole, Brian Hart and Aidan Powers-Riggs, "Are U.S. Policies Eroding China's Dominance in Shipbuilding?," Center for Strategic and International Studies, September 24, 2025, https://www.csis.org/analysis/are-us-policies-eroding-chinas-dominance-shipbuilding; and the same authors, "Ship Wars: Confronting China's Dual-Use Shipbuilding Empire," March 11, 2025, https://www.csis.org/analysis/ship-wars-confronting-chinas-dual-use-shipbuilding-empire. The tonnage comparison concerns commercial shipbuilding, not warship output. The connection to naval construction is the shared industrial base and the integration of commercial and military work.

keep expanding and improving its fleet over decades. Counting the American carriers already at sea tells us relatively little about whether the United States can reproduce that strength as its ships age and its commitments grow.

There is a longer history to note behind the appearance of these new Chinese ships. In 1433, the last of the Ming treasure fleets returned from voyages across the Indian Ocean that had reached Hormuz and East Africa. China could send an immense state fleet through waters that no European power yet commanded. The Ming court subsequently ended those expeditions.[4] More than seventy years later, Portuguese warships reached Hormuz, beginning the armed struggle over its trade that opens this book's historical account.[5] China's return as a major ocean-going naval power today confronts an order much older than American leadership. A question floats in the current times: are the intervening centuries of Western predominance between the two Chinese fleets approaching their end?

Across the Pacific, the simultaneous prospect of another industrial revolution was sustaining confidence in America's future. By the end of May, investors had valued Anthropic, the five-year-old company behind the Claude Large Language Model (LLM), at $965 billion. That price was more than twenty times the annual revenue implied by its sales pace that month, before deducting any expenses.[6] Investors were buying into the expectation that AI would become indispensable to enough economic activity to produce enormous profits. The valuation required a future far larger than the business that already existed.

Building that future carried obligations of its own. Anthropic had reportedly committed to spend $200 billion on Google Cloud over five years for the computing infrastructure its models would use.[7] Those payments would become revenue for Google, but Anthropic

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[4] Yang Wei, "Admiral Zheng He's Voyages to the 'West Oceans'," Education About Asia 19, no. 2 (Fall 2014), https://doi.org/10.65959/eaa.1272. The seven voyages ran from 1405 to 1433, reached Hormuz and East Africa, and ended by decision of the Ming court. This is a comparison of maritime capacity and historical reach; it does not imply uninterrupted Chinese command of the Indian Ocean or an immediate European succession in 1433.

[5] João Teles e Cunha, "Portugal i. Relations with Persia in the Early Modern Age (1500–1750)," Encyclopaedia Iranica, July 20, 2009, updated November 8, 2012, https://www.iranicaonline.org/articles/portugal-i/. Albuquerque took Hormuz in 1507, lost it in 1508 and returned in 1515. The opening refers to the initial Portuguese armed intervention, seventy-four years after the last Ming expedition returned.

[6] Anthropic, "Anthropic Raises $65B in Series H Funding at $965B Post-Money Valuation," May 28, 2026, https://www.anthropic.com/news/series-h. The announcement reported a $965 billion post-money valuation and said the revenue run rate had crossed $47 billion in May. Using the reported $47 billion rate gives a valuation-to-annualized-revenue ratio of about 20.5. A run rate extrapolates the current sales pace; it is neither realized annual revenue nor profit.

[7] Disha Mishra, "Anthropic Commits to Spending $200 Billion on Google's Cloud and Chips, the Information Reports," Reuters, May 5, 2026,

would have to find the money through its customers or further financing. Its investors, meanwhile, expected profitable returns from Anthropic after the computing bills were paid. The same anticipated expansion of AI therefore supported both the price placed on the company and a vast stream of business promised to its suppliers. Whether the eventual earnings from LLMs could sustain both was becoming a question for the wider economy.

The dominant US narrative about all of these developments was and is that the 21st century remains the "American century" that was much celebrated for decades at the so-called "End of History" after the collapse of the Soviet Union. Eleven US Navy *Ford* and *Nimitz*-class super-carriers stand, at least on paper, against China's modest navy, just now reaching for three carriers. US frontier AI models are supposedly dominant, US chip manufacturing technologically superior, and the US capital markets dynamic, innovative and strong. The Trump administration's January 2026 White House paper named "US AI dominance" as the foundation of a second "Great Divergence" of the West from the rest.[8] The common understanding is that whatever China is doing will not change this structural reality: United States leadership is being solidified, and this time, the two major projects the US is now championing might create such a lead and such a lock-in that US hegemony could just be indefinite.

The United States' first reach to this final, indefinite victory is exactly in the rush toward "artificial general intelligence." The pitch to the capital that funds the AI build-out is that machinery and automation are now reaching into the cognitive layer, before and in tandem with a reach into physical labor via robotics. This promises large reductions in "variable capital," or what is advanced to buy labor power, chiefly wages, in knowledge work, software and design, legal services and customer support — before reaching work such as plumbing and cooking. The potential for reduction in labor costs is a significant factor in justifying otherwise truly insane company valuations and capital expenditures on AI. It is reminiscent of the "technological transformation" story of the 1990s internet productivity-boom, repeated at massively higher volumes. It is exactly nostalgic for that moment after the collapse of the Soviet Union when a dynamic US capitalism with no real competitor appeared to be permanently ascendant, and also seemed to have escaped its usual boom-and-bust dynamics through computing and the internet.

The second reach to a final, indefinite victory is with the current war against Iran and the battle over the Strait of Hormuz. The United States is fighting against a 47-year-old "thorn in its side," a regional power that has stubbornly refused the US project of the last three decades to remake the Middle East in the US image. If victorious, the US could simultaneously secure US energy and political dominance in the energy-rich Middle East

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https://finance.yahoo.com/sectors/technology/articles/anthropic-commits-spending-200-billion-204952501.html. Reuters attributed the five-year commitment to The Information, citing a person with knowledge of the matter. This is the May report; the later prospectus figures are examined in the discussion of the AI build-out.

[8] Council of Economic Advisers. Artificial Intelligence and the Great Divergence. January 2026. https://www.whitehouse.gov/wp-content/uploads/2026/01/Artificial-Intelligence-and-the-Great-Divergence.pdf

and North Africa (MENA) region. Most other Gulf states prior to the war were quite cooperative with US interests, and this is no coincidence. Iran is the latest entry of punitive military actions in a sequence that established this state of things, with actions against Iraq's Saddam in 1991, Saddam again in 2003, Libya's Gaddafi in 2011, and the moves against Syria's Assad across the 2010s. In each case: a regional power pursued sovereignty, growth, or confrontation in ways the US-led system could not accept, and in each case, at a moment of maximum weakness for the local state, the US administered intervention to demonstrate that sovereignty outside its terms is impossible both to the region and to the wider world.

The anti-Iran project is equally nostalgic for these 1991-2003-era unipolar moments when the punitive demonstrations of the "coalitions of the willing" appeared to work. The 2025 US National Security Strategy names it all openly: open passage through Hormuz and the Red Sea, protection of Gulf energy supplies and independent access to critical minerals as core American interests. The subsequent combination of military pressure, tariffs and sanctions reads transparently as an attempt to regain leverage over the materials and routes on which China and other competitors depend.[9]

By the autumn, Americans were paying more for fuel while the administration continued to promise victory over Iran. In an interview published on October 1, President Trump insisted that the military was in "great shape" and "stocking up big" on munitions definitely not in short supply, and that an agreement would bring oil prices back down.[10] His account over months painted the disruption temporary, with American power intact underneath it.

The AI boom gave that confidence a material basis beyond the President's assurances. People could use the new tools, see them performing work, reasonably expect further advances, and see the markets soaring. It was possible to feel the war at the pump while interpreting technological change and market growth as evidence that America's next period of prosperity was already beginning. That experience helps explain why a transition could remain difficult to recognize even as its costs entered daily life. The productive possibilities were real. Whether they could sustain the profits, financial claims and military reach built upon them was the unresolved question.

A nostalgia-fueled hubris driving the projects was made by an institutional framework and political-military leadership class that could not accurately remember what it was reaching

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[9] The White House, National Security Strategy of the United States of America, November 2025, pp. 13 and 28. https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf The interpretation of the combined instruments is the author's.

[10] TIME Staff, "Read the Full Transcript of Donald Trump's 2026 Interview With TIME," October 1, 2026, https://ca.time.com/donald-trump-2026-interview-transcript/. The interview took place on September 28. Trump described the military as being in "great shape" and "stocking up big," and predicted that oil prices would fall when he made an agreement. Those claims are presented here as his account, not as findings about military readiness or the timing of a settlement.

back toward, and therefore cannot truly understand what it is doing now. The aging "patient" of the United States' empire's managerial strata does not and cannot recall the full, detailed sequence of events that actually transpired in its "moment of triumph" post-1990.

The war of 1991 left a US garrison in Arabia and 12 years of sanctions on Iraq, which became the grievances that caused Osama bin Laden's anti-US declarations of 1996 and 1998 before the attacks of September 11, 2001. The US invasion of Iraq in 2003 answered an attack Iraq had no part in, and the occupation, by disbanding the army and purging the Baath, fed an insurgency it then fought for at least eight years. The Iraqi civil war that followed and the US withdrawal of 2011 left the ground on which ISIS took Mosul and surged throughout the battered region in 2014, causing the so-called "great powers" of the United Nations to need to recommit forces to combat them. This chain of events consumed trillions of dollars[11] and represented a generation of failed nation-building, and its lasting product was an Iranian-friendly Shia-dominated government in Iraq with Iranian reach across Syria and Lebanon, held until 2024. The irony here being that the whole project had been meant to prevent a US-unfriendly regional power, and had, regardless, created exactly that thing.[12]

The US institutions also do not accurately recall that the 1990s internet/technological productivity boom was a bubble that led to the 2000s "Dot Com" crash, and had elements in the 2008 financial crisis as well in "machine balanced risk assessments" and the like.

The institutional memory instead has been molded across some 40 years to support only a picture of decades of ongoing strength since the 1990s victory, which the US still sees when it looks at itself in the mirror, flexing its remaining muscles.

This faltering memory and need for flexing of muscles to the world is notably precisely the thing every failing hegemon of prior systemic transitions has also reached for, and we will explore this in detail shortly as a comparison to our present moment.

This work leans heavily on analysts of prior hegemonic transitions, who have done decades of work chronicling that control of the developing system of "capitalism" i.e. the economic growth engine and political, military and financial controls that come with dominating it, has passed between "great power" states at least three times since the "Heavenly Dynasty" ended its oceanic expeditions and the Italian city-states and Spanish Empire filled the sea they left. Each time the hegemonic status started to change hands, the incumbent hegemon

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[11] Crawford, Neta C. Blood and Treasure: United States Budgetary Costs and Human Costs of 20 Years of War in Iraq and Syria, 2003–2023. Costs of War, Brown University, March 15, 2023. https://costsofwar.watson.brown.edu/sites/default/files/papers/Costs-of-20-Years-of-Iraq-War-Crawford.pdf

[12] Bin Laden, "Declaration of War Against the Americans Occupying the Land of the Two Holy Places," Al-Quds Al-Arabi, August 23, 1996, and the World Islamic Front statement of February 23, 1998, which lists the garrison first and the sanctions on Iraq second; Coalition Provisional Authority Orders 1 (May 16, 2003) and 2 (May 23, 2003); the last American troops left Iraq in December 2011, and ISIS took Mosul in June 2014.

started reaching back for a moment of strength it could no longer reproduce, while feeding a successor that built an even larger and more complex container for this developing military, political and economic system. The growing successor, whose productive base increasingly held the lion's share of the world's accumulation, always eventually eclipsed the incumbent and then fought a general war, either against the incumbent or absorbing it as an ally, to formally cement its status as hegemon.

A new succession crisis is now under way, and this time it is being fought with the tools of the economic profession itself, along with unmanned drones, ballistic missiles, sanctions, chokepoints and control over international payments, in the places where religious confessions, mercenary bands and crowns used to be. Again, ironically, it is being fought at the strait where the entire system began.

II. Thesis

Capitalism has recovered from every general crisis in the same ways: it destroyed part of itself and began again, one size larger. Claims were defaulted on, firms went under, rival cities and then rival nations were ruined, and accumulation restarted in a bigger state, with a bigger army, across a bigger world. Genoa gave way to Amsterdam, Amsterdam to London, London to New York. Each handover took a general war that was larger than the last, until one ended in 1945 with a weapon too large to use. This work argues that this means the ladder has run out of rungs: there may be no larger world left to draw into wage labor, no larger war that can be survived, and the one "larger" state has not agreed to play the part. So this time, nothing is destroyed at the scale required: the claims are kept alive, and what keeps them alive is taken from the wage, the grid, the arsenal and the harvest.

The current US-led order met its own crisis of returns in the 1970s and answered by turning its money away from production. That turn was an infection of the organs that decide where resources should be allocated, and the fifty years since that change have been one long wasting, in which the claims themselves were fed while the economic body was consumed. I call this half century a "Long Liquidation." A body that wastes long enough stops thinking clearly. In 2026 this one bet a trillion dollars a year on machines meant to remove wages, and walked into an unwinnable war at the strait where Western dominance began.

The AI build-out is a colossal speculative bubble of capital expansion. The shares and debts financing it are "fictitious capital" in the sense that they are deployments toward mere claims on future income.[13] This work argues that the build-out cannot earn enough to validate those claims, but if it somehow does, it replaces wage labor as the dominant form of production, which undermines the source of profit itself.

The Iran War punitive expedition is publicly and observably failing against an Iranian deterrent that has been pre-positioned for decades. US military "dominance" can degrade

[13] Karl Marx, Capital, vol. 3 (1894), chapters 25 and 29, on credit and the capitalization of claims to income.

but now no longer break this state at proportionate and reasonable cost: it is a war without a usable outcome. Either Iran keeps its hold on the strait and ends the war as its gatekeeper, or the two sides destroy the oil and gas plants of the Gulf between them. The first loses the chokepoint, the second removes the thing the chokepoint was for and likely destroys the global economy. The world watches the US flounder in the *zugzwang:* a situation in chess where a player is put at a disadvantage because they are required to make a legal move, and every available option worsens their position.

Both projects also depend on the dollar's central place in global energy trade and finance. This work argues that they are both destroying the arrangements on which that dependence rests.

I read this situation as a potentially terminal cascade with three distinct stakes: US-led hegemony, Western dominance built over five centuries, and capitalism's capacity to renew itself as the system organizing world production. These have different histories, and can have different outcomes, but I am theorizing all three, further evidenced in the work.

By capitalism's "end," I mean that private accumulation will be forced to cease governing the reproduction of the world order economically, politically and militarily. That could happen through a successor that controls and directs production toward other purposes, or through a breakdown that leaves owners collecting diminishing profits inside a contracting system. Any surviving relations would certainly still be capitalist, so I don't imagine a sweeping apocalyptic change from one system to another over the span of weeks. The important thing to note is that this "survival" would not continue capitalism's historical capacity to extend its method of production of wage labor organized by private accumulation across the world. The arrangements now attempting to protect accumulation are destroying the conditions of another durable expansion. A successor that was able to restore such an expansion would defeat that claim.

These are indeed grandiose claims, which go against consensus readings in popular scholarship of both liberal and Marxist schools of thought, in two main ways:

1. Familiar recoveries can no longer renew the order on the scale required. Cheaper assets, public support and new industries can still rescue firms and improve lives. But recoveries and rescues that preserve financial claims while weakening the people who must pay them, or secures one state's supplies by damaging another's, can make subsequent, inevitable next crises harder to survive. This work argues that such damage is accumulating faster than the means of repairing it, while the political authority to impose further losses is wearing thin, which is why I read the conjunction as potentially terminal.

2. The People's Republic of China, on this work's reading, offers a possible alternative economic and governing order. Its industrial development since 1949 created capacity that *could* serve socialist construction, but the market reforms post-1979 also enlarged private accumulation. This work judges the direction from 1979-2012 adversely by that measure, even where output grew. Retained state control of strategic industries left a means of changing course. I read and evidence a later turn

post-2012 as an effort to subordinate capital and expand social provision.[14] Its success as an example for the rest of the world would open a route to an international transformation without requiring a Chinese war of conquest. Whether that effort changes who controls production and receives its surplus, or consolidates state capitalism, remains a question for the record.

I argue the unraveling itself on all three levels is due to a fundamental law of diminishing global profits, which holds everywhere commodities are produced for exchange with private ownership of the means of production on a finite planet.

China of course also has this issue, and yet, it is far better equipped to weather this transition away from the blindness of unfettered profit-seeking. The formation that next inherits the world is likely the one that can sustain its people without making every condition of their lives depend on endlessly profitable sales and speculation about them. That means housing, elder and sick care, and time to live outside of productivity are balanced with the needs of the factories that make the goods required for survival and non-survival needs.[15]

History is littered with fools making failed proclamations of exact dates of the "final crisis" of capitalism, and incorrectly crowning who and what the successor will be. Such proclamations recurred through much of the Soviet period.

Regardless, I willingly join their ranks, and try to evidence my arguments.

The readings are importantly asymmetric in evidentiary weight: the strain on the existing US-led global architecture is directly observable in capital expenditure, depreciation schedules, household balance sheets, chokepoint flows and sovereign-debt mechanics. Whether that strain is terminal is an inference, and this work tests it. The arguments regarding the People's Republic of China rest on more contested ground: historical-institutional comparisons, doctrinal interpretations, and judgments about development trajectories that haven't yet been fully completed.

I wrote this book while the events it describes were happening, beginning in the first weeks of the war on Iran, and revised it as they went on. Having joined the ranks of those who dated a final crisis, the book tries to keep its own record. Dated tests that can change my judgments are kept in The Record, outside the book.

The ranks of such fools have a brilliant senior member whose framework this work borrows heavily from and owes much to: Giovanni Arrighi, the world-systems historian

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[14] Communist Party of China. Report to the Thirteenth National Congress on the Primary Stage of Socialism. Beijing Review 30, no. 45 (November 9–15, 1987). https://www.massline.org/PekingReview/PR1987/PR1987-45.pdf The description of a second phase of consolidation is this work's interpretation, not the name of a formally announced replacement for the primary-stage doctrine.

[15] Karl Marx, Capital, vol. 3 (1894), chapters 13–15, on the falling rate of profit, counteracting influences and the law's internal contradictions.

who traced the development of capitalism as a 500-year sequence of hegemonic transition cycles in his work *The Long Twentieth Century.* He spent his last two decades of life investigating himself whether the US hegemonic cycle could be the final one for capitalism, and he dated the onset of its crisis before he died: as Vietnam had precipitated a "signal crisis" of American hegemony, he wrote in *Adam Smith in Beijing* (2007) that the difficulties in Iraq would likely be seen in retrospect as having precipitated a "terminal crisis" of US hegemony.

A "signal crisis," in Arrighi's account, begins a leading regime's turn toward financialization. A "terminal crisis" is the event or series of events through which that regime is superseded.

A posthumous assessment with Beverly Silver, his closest collaborator, read the 2008 meltdown as confirmation: "one of the latest indicators" that the end of the long twentieth century had arrived.[16] My argument takes this dating of terminal onset at Iraq and confirmation in 2008 as its starting point, and scores the prediction against contemporary events over the following two decades. My forecast extends their account: the current chokepoint wars and an AI-bubble related financial crash will complete the transition away from US-led hegemony. I also attempt to argue they signal the end of a wider Western dominance and note the ways in which we are seeing the limits of capitalist renewal, which remains answerable to separate tests.

My read is that the invasion of Iraq in 2003 was precisely the terminal crisis of the American empire, launched in the pure confidence of the unipolar years. It degraded the international system since 1945, opening the way to 2011 proxy conflicts, when the war in Syria became a contest among the great powers fought through other people's armies, as Spain was in 1936. That war was the real opening of the present crucible-transition, which has culminated in the 2022 Russian invasion of Ukraine and the hardening of the US-led NATO-bloc against the so-called "Axis of Upheaval" of Russia, China and Iran: "Brzezinski's Nightmare" from the Cold War.

Two errors recur in popular accounts of the present crisis and of how world orders end.

The first error is treating the end of an existing hegemon as a specific event with a single date attached that is findable-in-advance. It is instead always a process that has been underway for decades, accelerating in moments of crisis. The consequences of the 30 Years War weren't immediately visible to all participants at the moment of the Defenestration of Prague. The 1914-1945 hegemonic transition did not suddenly happen on the day Princip shot the Archduke of Austria. It too ran approximately 30 years, coming out of the first era of "globalization" and through the First World War, the Russian Revolution, global depression, the Manchurian invasion, the Spanish Civil War, the Anschluss, the Nazi-Soviet pact, Operation Barbarossa, US-British bases-for-destroyers, the Pacific war, the Holocaust, the Soviet entry against Japan, and the dropping of the atomic bomb. None of those events

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[16] Arrighi, Adam Smith in Beijing, p. 185 and Part III ("Hegemony Unraveling"); Silver and Arrighi, "The End of the Long Twentieth Century," in Calhoun and Derluguian, eds., Business as Usual (2011), ch. 1, 55–56. For the signal/terminal distinction, Arrighi, The Long Twentieth Century, 2010 edition, pp. 220–221.

alone was **the single moment** of hegemonic transition, rather it was the entire sequence over the full series.

The second error is treating a visible symptom as a central one for "terminality." In our case, an AI economic bubble alone is not the cause of a terminal cascade. The Hormuz crisis alone is not the cause. An economy in which wealthier households prosper while others fall behind, the "K-shaped" economy, is not sufficient to explain it either, even as consumer spending falters. I read these crises as parts of the same structural condition.

The core question is: can current accumulative bodies survive the conflicts their expansion inevitably creates? If so, how? If not, why not? The history that follows asks how earlier orders resolved that problem, and what now obstructs a comparable recovery.

I will compare three historical transitions with the present crisis, identifying recurring features and testing them against current events.

Whatever you think of him, Mao in 1937 wrote *On Contradiction* which established the principle that in any complex system at any historical moment, multiple contradictions are simultaneously in motion, but a single contradiction is at least principal among the others. He argued that such a "principal contradiction" determines and influences the development of the others. In my view, the principal contradiction is between the US-led order's continued command over production and resources and the shifting productive capacities on which that command depends, with China central to that change. A transition toward an order centered on China is the resolution this work anticipates. Whether that transition renews capitalist accumulation or changes the relations governing production remains a further question.

The connected contradictions concern finance, energy, technology, war, political articulation and institutional decay. In finance, expanding claims on future income confront limits in the production and demand that must pay them. In energy, command over routes confronts dependence on supplies and productive capacity beyond that command. In technology, the AI wager seeks renewed leadership by reducing the paid labor it uses, putting pressure on the incomes that buy its customers' output and, in the theory used here, on living labor as the source of surplus value. In war, commitments to enforce the order confront opponents' ability to replace losses, sometimes using components supplied by the successor's factories.

Political articulation concerns the different answers workers, owners and states organize to these pressures. Institutional decay concerns the conflict between preserving authority and correcting policies that damage its basis. Strains in these areas can arrive together and feed one another, the pattern this work calls the compression thesis. I treat the contradiction between command and productive capacity as principal because efforts to preserve or displace the existing hierarchy shape the conditions in which the others develop. Each also has mechanisms of its own. Their effects can speed, slow or redirect the transition.

Every Marxist dating of this system's end has been early, Marx's and Engels's in 1848 and the Russian Marxist Georgi Plekhanov's half a century later, and the founders said so

themselves. This work's claim is that the reasons they were early, the room the system still had for its productive forces and the old regime's habit of outliving its base, are both running out: the room is spent, and the regime that has outlived its base is meeting the kind of crucible such regimes end in.[17]

III. Historical Echoes

The reaches are themselves different types of evidence for the argument. Financialization is a core, repeated pattern: the incumbent hegemons each made it in their last decades, and each time financialization ended up hollowing the incumbent and inadvertently building the successor.

Financial expansion itself is a simulation of a productive expansion. When the returns on production fall in the hegemon's own economic base, capital withdraws from trade and manufacture into lending, and the lending essentially flows to whatever or whomever is expanding and profitable, which typically ends up being the successor itself.

In the first transition, the financialization feeding a successor was notably indirect. The Genoese/Spanish did not lend primarily to the growing successor of the Dutch. They instead financed the Spanish crown's wars and expansions, took the silver of the Americas as interest, and the Genoese were defaulted on four times in 40 years. Money reached the Dutch anyway, as the pay the Habsburg Army of Flanders spent in the Dutch provinces it was fighting in, as the grain and naval stores the Dutch sold to both sides, as the merchants that left Antwerp, Belgium for Amsterdam when Antwerp fell in 1585, and as the silver that finally settled in the Bank of Amsterdam. The financier fed an incumbent's war, and the war itself fed the successor.[18]

During the eighteenth century, Dutch investors bought British government debt and shares in British trading companies, helping finance the state and its commercial expansion. Again, once British industry had stopped growing relative to American and German rivals, British capital poured into the American railroads and financed the American century. The City of London lived on the interest until the conflagration of 1914 forced it to sell its imperial portfolio to pay for the first "Great War" against the German rivals.[19]

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[17] Engels, Friedrich. Introduction to Karl Marx, The Class Struggles in France, 1848 to 1850. 1895.

[18] Parker, The Army of Flanders and the Spanish Road (1972), on the army's pay as the largest cash flow into the Low Countries; Israel, The Dutch Republic (1995), on the emigration of Antwerp's merchants after 1585 and the Republic's trade with the enemy; Marx, Capital, vol. 1, ch. 31.

[19] Arrighi, Giovanni. The Long Twentieth Century: Money, Power, and the Origins of Our Times. 2nd ed., with a new Postscript. London: Verso, 2010. First published 1994. https://www.versobooks.com/products/1483-the-long-twentieth-century Chapters 2–4, especially pp. 211–213 on Dutch holdings of British debt and company shares. See also Marx, Capital, vol. 1, chapter 31. https://www.marxists.org/archive/marx/works/1867-

In more modern transitions, the financialization fed the successor directly: Amsterdam bought London's debt and London built America's railroads. That history provides the comparison for the Chinese-American case. American demand and international investment supported China's industrial expansion while China became a major creditor and a strategic rival of the United States. The postscript returns to the financing relationship and the conditions of this transition.

The reach for economic chokepoints and trading straits is a longer "Western hegemony" bookend to these transitions: Hormuz and the Americas are arguably where "Western global centrality" opened in the early 1500s. The Suez Canal chokepoint itself is where the last hegemon's empire broke for all time in 1956, and the Hormuz Strait is where the current incumbent's empire is breaking now.

Read without historical background, the strikes on Iran seem like just another war, and the AI capital expenditures are just another railroad or dot-com boom-and-bust investment cycle. The failure of each is a correction or policy error awaiting a better policy.

The historical comparisons also test the argument. The earlier transitions show a leading power losing its foundations while capitalism reorganized around its successor. We can explain how American hegemony ends without yet explaining why Western primacy or capitalism must end with it, and the present has to show what now prevents another renewal of each thing.

The three transitions give us a basis for testing whether US hegemony, capitalism as we know it, and Western centrality are ending together or separately.

IV. How Capital Makes Money

The history needs one tool first. The chapters that follow describe bankers, fleets and wars, and underneath each of them is one question: how does money become more money? There are two answers. One runs through production, where money buys machines, materials and human labor, and the product sells for more than it cost. The other skips production and lends, collecting a return on someone else's activity or on nothing at all. The first built the modern world. The second is older, and it returns whenever the first stops paying.

To Marx, capitalism is generalized commodity production, things made to be sold, through wage labor, humans making them for a wage, with the extraction of surplus value as the engine and the self-expansion of capital as its mode of existence. Markets, private property and exchange also existed in ancient slave societies and in feudal Europe. What distinguishes capitalism is the dominant social relation of production: privately owned commodity production by wage labor, in which the worker's labor creates more value than the wage returns, and the owner takes the difference as profit.[20]

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Marx's general formula for capital is money, commodities, more money (M-C-M'). M is money advanced by a capitalist. C is the commodities it buys: labor-power, which Marx calls variable capital because it is the one input that adds more value than it costs, and the means of production, machines and materials, which he calls constant capital because they pass on only the value they already hold. M' is the larger sum the finished commodity sells for. The difference, M' minus M, Marx's ΔM, is surplus value, and the system must run on its continuous expansion, which is observable as the capitalist's constant chase for a positive return on investment: profit / capital advanced.[21]

Marx specified a deeper structural point in Volume III chapter 15: "the real barrier of capitalist production is capital itself." Marx meant that the drive to expand value runs into the limits set by the relations that produce it. The extension is this work's own: an accumulation process that promised to run with no humans in it would be either impossible or not capitalism, and AI capex is that barrier made visible.[22]

Imagine a machine as a battery for labor. Building it took 1,000 hours of human labor (the number is for demonstration only). Those 1,000 hours are stored in the machine the way charge is stored in a battery. When a worker uses the machine, it wears down just as a battery discharges, and the wearing down releases the stored labor into the products it makes. By the time it has worn out, all 1,000 hours have passed into the products. The machine added nothing of its own: it merely released what was already in it. What it did for the worker was multiply output: more product per hour, with fewer hands at the point of production. The multiplier is in output, never in value. The labor-hour adds the value it always added, spread across more product created.[23]

A battery does not charge itself. The charge came from labor, and the discharge needs labor: no machine builds itself, and none runs so far without some form of a human hand on it. That is why living labor is what generates new value. Labor-power reproduces itself through the wage: the worker eats, sleeps, raises the next worker, and returns to the point of production. No machine has done that yet.

The worker adds value through the labor itself, assembly, discernment, expertise, above the cost of the inputs: the machine's transferred hours, the raw materials, and the wage. That surplus, the ΔM, is where profit lives, and in Marx's framework it can come from nowhere else, because only living labor produces value beyond its own cost of

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[20] Karl Marx, Capital, vol. 1 (1867), chapters 4 and 6, on the general formula for capital and the buying and selling of labour-power.

[21] Karl Marx, Capital, vol. 1 (1867), chapters 4 and 8, on M–C–M′ and constant and variable capital.

[22] Karl Marx, Capital, vol. 3 (1894), chapter 15, section II, "Conflict between Expansion of Production and Production of Surplus-Value," https://www.marxists.org/archive/marx/works/1894-c3/ch15.htm.

[23] Karl Marx, Capital, vol. 1 (1867), chapters 8 and 15, on the transfer of machinery's value to its product.

reproduction. Marx allows two ways a machine raises the value produced in a clock hour, and both run through the worker: intensity, a faster pace that packs more labor into the hour, and complexity, labor the machine requires to be more skilled, which counts as multiplied simple labor.[24]

Profit and surplus value both name what is left after costs, and they are kept in two sets of accounts. Surplus value is kept in hours, at the factory door, in an account that exists in Marx's analysis and in no company's books: of an eight-hour day, three hours produce the value of the wage and five are unpaid, and the five exist in the product the moment the shift ends whether or not the product ever sells. Profit is kept in dollars, after the sale, measured against everything the owner advanced, the machine included, and shared with the banker, the landlord, and the state before competition redistributes what remains across firms in proportion to their capital instead of their labor. The five hours are the source, and each step between them and profit can fail or be faked. Realization is the sale of the output, and surplus value never sold is the realization failure. Profit booked on fictitious claims, claims on future income that may never materialize, has no surplus value behind it yet, and that is the fictitious circuit. Part Two returns to those two gaps in one organ after another, and the owner's accounts are built so that neither shows.[25]

The objection follows on schedule: pay the worker the full value of their labor and there is no profit, no business, no society. Labor has no value; it is what value is made of. What the worker sells is labor-power, a day's capacity to work, and the wage pays its full value, the cost of keeping the worker and raising the next one. The exchange is fair on its own terms, and the surplus arises because a day of labor-power produces more than a day of it costs. And every society extracts a surplus product from the working day, what its producers make beyond what they consume. In the Critique of the Gotha Programme Marx listed the deductions himself, before a single individual is paid: replacement of the means of production used up, expansion, a reserve against calamity, administration, schools, health, and funds for those who cannot work. All of it returns to the worker as a member of society what was deducted from the worker as an individual. Profit is the form in which one class appropriates the surplus as private property, sets its size, and decides its use. A society without surplus is no society, and a society can organize and distribute a surplus without making private profit the governing aim of production.[26]

A second objection follows: if the same labor-hour makes more product, more product is sold, and profit goes up.

Before the machine, a labor-hour makes 10 units of a product. Each finished product carries 1/10th of an hour of labor-added value. After it, the same hour makes 20, so each

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[24] Karl Marx, Capital, vol. 1 (1867), chapter 1, section 2, on simple and complex labour, and chapter 15, section 3, on the intensity of labour.

[25] Karl Marx, Capital, vol. 3 (1894), chapters 1–3 and 29, on surplus value, profit and fictitious capital.

[26] Marx, Karl. Critique of the Gotha Programme. 1875. Moscow: Progress Publishers, 1971. https://www.marxists.org/archive/marx/works/1875/gotha/index.htm Part I.

carries 1/20th. Twice the commodities, half the labor-added value in each, the same total value per hour, because value is socially necessary labor time, the time a product takes at the normal skill and technique of its day, and doubling productivity halves the labor time each unit needs.

Selling 20 units at 1/20th returns what selling 10 at 1/10th did. The objection is true in exactly one situation, and briefly: the first adopter. While competitors still make 10 an hour, the price stays at 1/10th, and the first adopter sells 20 at 1/10th, twice the money for the same hour. That is extra surplus value, real money in their hands and no new value anywhere, a gap between their cost and the social price. It closes the moment the machine generalizes and competition pulls the market price down to 1/20th.

The capitalist experiences this as "the machine making more profit." The belief is correct for them and false for the system, which is why every capitalist is forced to chase an advantage that vanishes once all of them hold it.

The system's own books have one route to more surplus value per hour, and it runs through the worker. Labor-power is a commodity like any other, and its value is the labor time it takes to produce what the worker needs to show up tomorrow and do more labor: food, rent, clothes, transport, the next worker raised, a bundle whose size is set by history and by struggle. When those goods get cheaper to make, the worker gets cheaper to keep. Their day does not get shorter: the part of their day required to pay for keeping them going does. If it once took four of their eight hours to produce the value of their own subsistence, and the basket of goods in that subsistence now takes 1/2 the labor to make, then two hours cover them and six go to the owner. The worker's standard can stay exactly where it was; what changed is the labor time inside it. Marx calls it "relative surplus value." It comes from the worker's share of their own hour falling, and more units sold has nothing to do with it.[27]

Volume III formalizes the law under all of this as the rate of profit: surplus value over total capital advanced, s / (c + v), where c is constant capital (machinery, materials, infrastructure) and v is variable capital (wages). Surplus value comes only from the living labor that v buys, and that labor is the numerator's ceiling: a workforce that lived on air would still yield no more surplus than the hours it worked.[28]

As capitalism develops, capitalists substitute more and better machinery for labor, raising c against v. The denominator grows while the numerator's ceiling shrinks, and the rate of profit falls unless the rate of exploitation rises fast enough to cover the gap. My objection to the theory that pays each input its marginal product is that it cannot say why a technology that raises every adopting firm's margin should shrink the pool those margins are paid from. The account associated with the economist Michał Kalecki explains how the build-out's spending becomes the chip maker's profit this year, and leaves out what the machines do to the rate of profit once they are running. Marx's account does both.

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[27] Karl Marx, Capital, vol. 1 (1867), chapter 12, "The Concept of Relative Surplus-Value."

[28] Karl Marx, Capital, vol. 3 (1894), chapter 3, on the relation between the rate of profit and the rate of surplus value.

Productive here has a specific meaning: labor that produces surplus value for capital. Making money for an employer is not enough. Marx treats the teacher in a capitalist school as productive, while the merchant's clerk helps the employer obtain value produced elsewhere.[29] Classifications differ, and each changes the measured division between wages, surplus and the costs of circulation. A growing profit can reflect new production, a larger share of existing value, or lower costs of obtaining it; the classification determines which explanation the accounts support.[30]

The first adopter's lost advantage does not determine the economy's rate of profit: cheaper equipment can lower the capital advanced, and cheaper necessities can increase the share of the working day producing surplus. Marx counted both among the counteracting tendencies.[31] The present build-out runs against them where its own orders make

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[29] Marx, Capital, vol. 1, ch. 16 (the schoolmaster), https://www.marxists.org/archive/marx/works/1867-c1/ch16.htm, and vol. 3, ch. 17 (the commercial worker), https://www.marxists.org/archive/marx/works/1894-c3/ch17.htm; Shaikh and Tonak, Measuring the Wealth of Nations (1994); Paitaridis and Tsoulfidis (2012).

[30] On where the line falls, four questions run through the Marxist literature. First, where is surplus produced and where is it only appropriated? Anwar Shaikh and E. Ahmet Tonak (1994) and Fred Moseley (1991) separate the production of surplus value from its circulation and supervision; Sungur Savran and Tonak (1999), following Isaak Rubin (1928), set out the two tests of social form and function; and Duncan Foley's later account distinguishes the production of surplus value from activities that appropriate it (2013, pp. 259–261). The empirical dispute also concerns how mixed activities are classified. A firm may employ people who produce a service, people who sell it, and people who administer claims on its income. These functions cannot be assigned from the employer's industry label alone. A serious alternative estimate must show how a different classification changes the measured profit-rate trend. Second, what sustains profitable investment and realizes output? Kalecki's profit identity and the monopoly-capital tradition of Paul Baran and Paul Sweezy (1966) direct attention to the expenditures that sustain profits and absorb output. For this book, a contrary result would be a durable recovery of profitable investment and living standards within capitalist relations, rather than a brief recovery that depends on an investment boom. Third, how do rents and finance divide the surplus? Marx's treatment of interest and rent in the third volume of Capital separates claims on surplus value from its production; a high margin can combine production with a rent, so a margin alone does not show rent. Fourth, how are workers and households reproduced? In the domestic-labor debate Wally Seccombe (1974, 1975) argued that housework creates value embodied in labor-power; his critics, among them Jean Gardiner, held that it does not. A sustained improvement in the material conditions of working households would count against the predicted breakdown of reproduction.

[31] Marx, Karl. "Capital, Volume III." Chapter 14, Counteracting Influences, 1894. https://www.marxists.org/archive/marx/works/1894-c3/ch14.htm The standing objection is Okishio's theorem ("Technical Changes and the Rate of Profit," Kobe University Economic Review 7 (1961): 85–99). A capitalist adopts a new technique only if it cuts his

equipment dearer and the war raises the cost of keeping workers and factories supplied. Whether cheaper computing can offset those pressures is the recovery claim the investment must meet.

Marx's chapter 24 of Volume III names the second answer directly: M-M' is "the meaningless form of capital," in which "capital appears as a mysterious and self-creating source of interest, of its own increase." A bond is a tradeable claim on future revenue; a share is a tradeable claim on future dividends. These claims circulate in a market, have prices, are borrowed against and appear to grow autonomously through the credit system, and they are real enough to their holders. They are "fictitious" because their value rests on future commodity production and surplus value, somewhere in the productive economy, that can validate the claims' valuations. When that validation fails, the fictitious capital is revealed as speculation and quickly destroyed, because it contains no "actual value."[32]

Lending and trading for gain are older than the factory. Marx grouped the moneylender's capital with the merchant's as forms that long precede capitalist production and are found in the most varied societies.[33] The history that follows begins with money in that older form, attached to a crown and its silver, and watches the detour through production deepen with each new center: the shipyard, the factory, the assembly line. Each center then

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cost per unit at the prices ruling today, and Okishio proves that if every technique adopted passes that test while the real wage stays fixed, the rate of profit that rules once prices settle is higher and never lower. The theorem is about the equilibrium rate in a model and not the returns booked during a build-out, and the ceiling stated above does not answer it, since the day bounds the hours of surplus labor and not their ratio to the hours that reproduce the worker: cutting necessary labor from one hour to half an hour adds half an hour of surplus and takes the rate of exploitation from seven to fifteen. The dispute is over the theorem's two conditions. With the real wage fixed, every gain in productivity goes to capital. Basu and Orellana ("Technical Change, Constant Rate of Exploitation and Falling Rate of Profit in Linear Production Economies," Metroeconomica 74, no. 3 (2023): 512–30) give the conditions under which cost-cutting technical change lowers the equilibrium rate when the real wage rises enough to hold the rate of exploitation constant, which is the case Marx stated. And on the test of a technique, Shaikh ("Political Economy and Capitalism: Notes on Dobb's Theory of Crisis," Cambridge Journal of Economics 2, no. 2 (1978): 233–51) holds that price competition forces the technique with the lowest unit cost even where it ties up more fixed capital per unit of output, so the margin on cost can rise while the rate on the capital advanced falls, which Roemer ("Continuing Controversy on the Falling Rate of Profit: Fixed Capital and Other Issues," Cambridge Journal of Economics 3, no. 4 (1979): 379–98) disputes. Whether the build-out is Shaikh's case, a cheaper token bought with a far larger fixed capital, turns on unit costs, utilization, asset lives and the capital employed, which the figures that follow test.

[32] Karl Marx, Capital, vol. 3 (1894), chapter 24, "Externalization of the Relations of Capital in the Form of Interest-Bearing Capital."

[33] Karl Marx, *Capital*, vol. 3, chap. 36, "Pre-Capitalist Relationships," https://www.marxists.org/archive/marx/works/1894-c3/ch36.htm.

abandons the detour when its returns fall, and each abandonment costs more than the last, because there is more to abandon.

V. Genoa: Money Before Production, 1492 to 1648

Each of the next three chapters asks the same five questions of a leading power. What did it make, and with whose labor? How did that become an advantage in arms? When did its money stop going through production, and whom did the lending build? What was its last reach? And how were its claims destroyed, so that accumulation could begin again somewhere larger? The first case has the least production and the purest money.

In 1492, Columbus sailed inadvertently to the Americas with Castilian sanction and a mixture of crown and private finance,[34] and in 1507 Afonso de Albuquerque took Hormuz for Manuel I of Portugal with six ships and about 500 men. He lost the place within a year and took it for good in 1515.[35] Albuquerque worked from a map that named three straits: Aden, Hormuz, and Malacca as the places where the trade of an ocean could be held by those that could not physically hold an entire ocean with fleets of ships.

The brutal colonization of the Americas and the Hormuz seizure of 1507 announced a coming western centrality and a new "developmental container." It was the smallest of the containers to come and yet already gigantic: money centers that owned no territory fused to empires that owned the sea lanes and the first colonies. These empires were conquering and colonizing increasingly large areas of the world that could not withstand growing military-technological gaps that enabled the conquest.

In the Americas the gap was steel, the horse and gunpowder against obsidian and cotton armor. It was exacerbated by the epidemics that rampaged through most of the conquered before the battles, and by allied indigenous armies that fought beside the conquerors, the Tlaxcalans at Tenochtitlan and one side of the Inca civil war at Cajamarca. In 1545 the Europeans found Potosí, whose silver paid the Habsburg wars and went on, through Seville and after 1571 through Manila, to a China whose money had become silver.[36] Meanwhile, the extracted silver of the Americas and the spice of the "Indies" all were clearing through Italian financial ledgers.

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[34] Sociedad Geográfica Española. "La expedición de Cristóbal Colón." Boletín 48. https://sge.org/publicaciones/articulos/la-expedicion-de-cristobal-colon/ The account identifies Luis de Santángel's advance for the crown and uncertainty over the source of Columbus's contribution.

[35] João Teles e Cunha, "Portugal i. Relations with Persia in the Early Modern Age (1500–1750)," Encyclopaedia Iranica, 2009, updated 2012, https://www.iranicaonline.org/articles/portugal-i/.

[36] Alfred W. Crosby, The Columbian Exchange (1972), on the epidemics; Matthew Restall, Seven Myths of the Spanish Conquest (2003), on the indigenous allies; Dennis O. Flynn and Arturo Giráldez, "Born with a 'Silver Spoon': The Origin of World Trade in 1571", Journal of World History 6, no. 2 (1995), on American silver's path to China.

The European carrack ship carried cannons that a dhow could not. Gunpowder was a Chinese invention itself, and the Turkish Ottomans, the Indian-Muslim Mughals and the Chinese Ming Dynasty had parity or better with European land warfare practices through the 16th century. Tonio Andrade's *Gunpowder Age* (2016) dates the failure of that parity to the 18th century, the dawn of another long era of European imperial-colonial expansion. So the edge that opened in 1507 was an edge mainly at sea and at the trading straits, where six ships with guns a dhow could not carry could hold a route. On land, it did not open until European company armies took Bengal and the steam gunboat reached the Pearl River.[37]

Kenneth Pomeranz's *Great Divergence* also dates European dominance of economic output vs the rest of the world to the 1800s. This did not *begin* or *become enabled* in 1800, it began exactly where the first hegemonic cycle did with Columbus and Albuquerque and the opening of "Western hegemony" over non-European formations, with Genoese capital financing the Iberian crowns' oceanic reach and extraction.

Capitalism had an embryonic shape before it itself had a name. The French historian Braudel placed an embryonic form of it precisely in the Italian city-states of the 14th and 15th centuries, in the top tiers of their economy where his "anti-market" lived: the layer above the fair and the shop where the large merchant and the banker did not want to compete with small merchants on price and engineered it so they did not have to. **The fusion of this "anti-market" with the crown was precisely where a military-economic divergence was beginning, even if the actual eclipsing of military strength and raw output against non-European near-peers did not register for three more centuries.**

The relationship between the Genoese and the Spanish empire eventually was predicated on two financial instruments. Here financialization appears in full for the first time in this sequence. An *asiento* was a short-term contract: a Genoese lending house advanced the Iberian crowns a sum of money and undertook to deliver it, converted into local coin, at a named place on a named date. This was usually Flanders, where the Spanish army waited to be paid.[38]

The *juro* was a long-term paper: an annuity charged on a specific royal revenue, the sales tax of Castile or the customs of Seville, sold to investors and pledged to the bankers as additional collateral for the *asientos* themselves. When the crown could not or would not pay its short-term *asiento* debt it did not repudiate it; it converted it, by decree, into *juros*, so that each short-term bankruptcy turned the bankers' advances into perpetual claims on Castile's taxes. **Such settlement, the *medio general*, restructured imperial debt by converting short-term advances into longer claims on royal revenues.**[39]

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[37] Carlo M. Cipolla, Guns, Sails and Empires: Technological Innovation and the Early Phases of European Expansion, 1400-1700 (1965); Tonio Andrade, The Gunpowder Age (2016); Daniel Headrick, The Tools of Empire (1981), on the steam gunboat in the Opium War.

[38] Mauricio Drelichman and Hans-Joachim Voth, Lending to the Borrower from Hell (2014), on asientos, transfers and royal revenues.

[39] Drelichman and Voth, Lending to the Borrower from Hell (2014), on juros and the settlements of the payment suspensions.

The silver of the Americas paid 1/5th of the crown's revenue in the second half of the 16th century. Regardless, Spain stopped payments to its bankers in 1557, 1560, 1575, and 1596 under Philip II, and again in 1607, 1627, and 1647. The fairs the Genoese ran at Piacenza, where the *asientos* were settled and the bills of exchange cleared, became a clearing house for Spanish public debt. This is financial expansion from inside: speculation on future revenues is converted into transferable claims, the claims trade at a fair that was originally built for goods, and sovereign default is paid for by lengthening claims further into the future and not by producing more.[40]

Braudel's third volume of *Civilization and Capitalism* (1979) called the years 1557 to 1627 the "age of the Genoese" in the development of embryonic capitalism, a rule so discreet that historians for a long time failed to notice it. The sources disagree about whether Genoese lenders were ruined by the defaults or profited through them. Against Braudel's serial ruin thesis, Mauricio Drelichman and Hans-Joachim Voth argue in *Lending to the Borrower from Hell* (2014) that the settlement of 1577 wrote off 30–58% of *asiento* debt, yet the bankers still earned positive returns on the *juros*. Lenders able to halt transfers to armies in Flanders could force a king to pay in other forms.[41]

The army in Flanders also represented a newly developed mode of war. The historian Michael Roberts named it "the military revolution" in a lecture of 1955 and Geoffrey Parker gave this revolution its book in 1988: the *trace italienne* fortress that made every siege long, and every army large, alongside the Spanish *tercio* infantry that created a trained mass force that could easily beat medieval peasant levies. This required the creation of a fiscal-military state that could pay for both over long stretches of war, which is why the Genoese financiers mattered more than individual generals.

A "Spanish Road" ran 700 miles from Milan to Flanders, and Parker's *Army of Flanders and the Spanish Road* (1972) explains why an imperial Spanish army supplied along such a road could win individual battles but could not hold a coastline. Our first transition begins: on April 1, 1572 the so-called "Sea Beggars" rebelled and took Brielle, Netherlands from the Spanish.

The Dutch revolts had a bridgehead that they never lost: northern Dutch provinces declared their independence in 1581, and Spain's attempt at landing annihilating blows on these rebels failed. The rebel area kept regenerating its economy and physical defenses

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[40] Giovanni Arrighi, The Long Twentieth Century (1994; 2010), chapter 2; Drelichman and Voth, Lending to the Borrower from Hell (2014), for Philip II's suspensions and American silver.

[41] Drelichman and Voth, Lending to the Borrower from Hell (2014), read the four suspensions as excusable defaults on state-contingent contracts: the settlement of 1597 cost the bankers about a fifth of their claims in present value and that of 1577 more than four times as much in absolute terms, and the same families kept lending at positive returns, the loan that accompanied the 1597 settlement carrying an 89% return as compensation in disguise; see also their "Serial Defaults, Serial Profits," Explorations in Economic History 48 (2011).

faster than the "Spanish Road" could deliver fresh attacks: Leiden held in 1574 behind opened dikes, the Spanish Armada of 1588 could not collect a Spanish army from a shore Dutch fly-boats blockaded, and Maurice of Nassau's army drill in the 1590s turned the Dutch infantry into the exact trained mass of the Spanish *tercio*. Military parity, even if mostly asymmetric parity, was achieved between a small coastal state and one of the largest and most powerful European land empires.[42]

On this reading, the 1580s rebellions had already decided the first European hegemon's decline, well before the Thirty Years War settled the succession. They demonstrated that a smaller opponent could regenerate its military economy and resist through asymmetric warfare. Spain had been ruled by the Habsburgs since Charles became its king in 1516, and the empire's terminal cascade was fought as religion and settled as politics and territory. Madrid and Vienna pursued the Spanish and Austrian Habsburgs' common dynastic ambition. They sought to crush the Protestant Reformation, whose religious rebellion was also political and economic, and bind Catholic Christendom under a "Universal Monarchy." Victory would have brought the continent under the authority of one dynastic house.

The initial war against the rebels of the Netherlands festered, fused with the confessional wars the Reformation itself had opened, and eventually became the war for the whole of "European Christendom" with Sweden and France eventually entering the contest as rival dynasties themselves, wanting to stop the reach for European dominion by the Habsburgs, not merely as rebelling confessions. It was fought across the German lands by hired armies that lived off the country, on credit from crowns that could not afford them, and it ended when the paymasters were spent. Perhaps a fifth of the Empire's people died of it.[43]

Inside Castile, a decline was read while it happened, in a way that should be familiar: Martín González de Cellorigo wrote in 1600 that Spain had become a republic (an epithet, at the time) of enchanted men living outside the natural order. Sancho de Moncada's *Restauración política* (1619) diagnosed the silver that merely bought imports instead of building local industry. These accounts were read by the elites of the time, and were not acted on. J. H. Elliott's biography of *The Count-duke of Olivares* (1986) is the seminal account of a reformer's desperate and doomed attempt to save a failing empire, which built a growing apparatus to survive this expanding crisis, and was eventually consumed by the apparatus itself. By 1648, the treasury and the reach of the "Universal Monarchy" that had enforced the age of the Genoese and Habsburgs was finished.[44]

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[42] Geoffrey Parker, The Army of Flanders and the Spanish Road, 1567–1659 (1972); Jonathan I. Israel, The Dutch Republic (1995), on the revolt and the Republic's military organization.

[43] Peter H. Wilson, *Europe's Tragedy: A History of the Thirty Years War* (London: Allen Lane, 2009), in its chapter on the war's human and material cost.

[44] Martín González de Cellorigo, Memorial de la política necesaria y útil restauración a la república de España (1600); Sancho de Moncada, Restauración política de España (1619); J. H. Elliott, The Count-Duke of Olivares (1986).

The war's settlement of 1648 was the slapping down of the reach. It extended the Augsburg principle of 1555 of making a "small ruler's" confession the same as their territory's, and recognized the Dutch Republic, in the same treaties. The "sovereignty" concept that textbooks add to this 1648 Westphalian treaty was fed into it nearly two centuries later. What it did was check the hegemon and write confessional coexistence beside a commercial peace, and the beneficiary of this arrangement was Amsterdam.[45]

The Dutch Republic that inherited a European hegemony was the first "winning" fusion of merchant and state, observably more successful than the absolute monarchies of the era. Jan de Vries and Ad van der Woude, in *The First Modern Economy* (1997), describe an oligarchy in which the families holding office also held the public debt. The Amsterdam exchange bank opened in 1609. Shares of the East India Company, founded in 1602, and the West India Company, founded in 1621, traded on the Bourse. These financial institutions and the Republic's control of the Baltic grain trade enabled a small territory to organize much of Europe's commerce and become a center of its diplomacy.

The "development container" of capitalism grew from a small money center attached to a larger feudal empire, to a continental production-and-trade system run by a state partially built by its owners to protect and balance such a system. The new state system itself that Westphalia confirmed greased those wheels. **The new merchant-state economy produced an early modern speculative mania: in 1636 and 1637, in the tavern colleges beside that Bourse, contracts on tulip bulbs briefly traded for the price of a canal house.** When the price broke in February 1637 the buyers refused to pay, the courts of Holland declined to enforce the contracts, and in 1638 Haarlem let a buyer walk away for three and a half per cent of the price. The first speculative claims in this history were cancelled by the authorities.[46]

Across the English Channel, another republic, the English Commonwealth of 1649 to 1660, executed its king, wrote a Navigation Act of 1651, and built the fiscal-military apparatus and parliamentary finance system that, similar to the Dutch, represented a growing merchant-state opposed to absolute monarchy. They fielded the New Model Army, a professional force with promotion by merit fused with a political programme. The monarchical Restoration of 1660 crushed the republicans but preserved parts of their state. The Restoration Parliaments renewed the Navigation Act, and the New Model Army was disbanded, but Monck's regiment passed into the new royal army: the instrument was kept in part while the politics went. In 1688 this was formally fused: a crown that reigned while the propertied ruled, the event Steve Pincus argues was the ***first modern revolution*** in his work *1688: The First Modern Revolution* (2009).[47]

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[45] Osiander, Andreas. "Sovereignty, International Relations, and the Westphalian Myth." International Organization 55, no. 2 (2001): 251–87. https://doi.org/10.1162/00208180151140577

[46] Anne Goldgar, *Tulipmania: Money, Honor, and Knowledge in the Dutch Golden Age* (Chicago: University of Chicago Press, 2007).

To sum this "First Transition": Western centrality expanded from peninsulas to chokepoints. Hormuz, Goa, and Malacca were held by a ship and later fort gun a dhow could not carry, and Europeans used such guns to enforce an expansionist military-economic system that produced growing productive leads and growing speculation and financialization. The embryonic mercantilist-capitalist system grew in its first world-scale form, merchant and financial anti-markets before industrial, the growing mercantilism: the Genoese fairs, the *asiento*, the colonial system that Marx in the last part of Volume I called the lever of "primitive accumulation of capital" whose sequence he wrote out as precisely Spain, Portugal, Holland, France, and England.

US hegemony did not yet exist but was being planted as yet another colony inside the same decades, Jamestown in 1607 and New Amsterdam in 1624, on the far shore of empires whose conquered treasures, in Marx's works, floated back to the mother country and were there themselves turned into capital. The incumbent Spanish hegemon grew and grew and reached for universalism and cementing of hegemony, and the successor increasingly actually held the productive system. Spain had silver, armies, fleets and chokepoints and yet lost to an Amsterdam that had the yards, the herring, the exchange, and the banks. The Dutch Republic could sustain trade and finance through institutions the Spanish crown could not replace by commanding silver and armies. The comparison this work makes with the present concerns that ability to sustain power, beyond the resources a hegemon can seize.

But the Genoese who financed the losing side could halt the transfers to Flanders and make a king pay in other forms, and on Drelichman and Voth's count they came through the defaults with their returns, while the system they served went on under a new center. Their survival accompanied the growth of an order capable of extending production and trade beyond the defeated hegemon. A fall of that kind ends a hegemony and leaves the mode expanding. Surviving profits would mean something different if the wider system sustaining them were contracting. The present has to be shown to differ in that direction of movement, as well as in its center.

This transition used four of the ways out. The crown defaulted, again and again, and its bankers were made to take long paper for short. That is the first maturity extension in this history, and it changed nothing about Castile's ability to pay. A general war ruined the lands it was fought across and exhausted the power that financed it. A settlement written at Westphalia fixed the result. And a larger host stood ready: a republic that built ships, caught fish and wove cloth with wage labor, and whose capital had been fed by the very war meant to crush it. Default, war, settlement and a successor with an outside to grow into.

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[47] Steve Pincus, 1688: The First Modern Revolution (2009); on the surviving regiment, the National Army Museum's history of the Coldstream Guards.

VI. Amsterdam: The State That Could Borrow, 1648 to 1815

The second transition ran from Amsterdam to London, but we cannot ignore that France contested this transition twice and lost that battle twice (an echo of the twice-failed German attempts of the 20th century).

Britain from 1707 was first the Dutch Republic's rival at sea, then its ally and debtor, then its heir. Bourbon France was the territorial rival that tried to take the succession by land and bankrupted itself and the incumbent in the attempt. Revolutionary France was a new form of society that arrived early in one state, isolated on a sea of the old. The heir was the power that fought France inside the incumbent's coalition and came out of it the victor by fusing with the incumbent's trade, its colonies and its debt.

The Navigation Act of 1651 shut Dutch carriers out of English trade, and three Anglo-Dutch wars followed between 1652 and 1674. In 1672 the French King Louis XIV invaded the Netherlands overland while England attacked by sea, and Münster and Cologne came in from the east. The Republic survived the year by again opening its dikes. What it learned was that its wealth was vulnerable sitting beside the strongest army in Europe, which set its foreign policy for 40 years. In 1688 the Dutch leader William of Orange crossed the English Channel with an invasion fleet and took the English crown. The terms of the alliance that followed this "Glorious Revolution" by the Dutch carried the means of a hegemonic succession inside them. The combined fleet was fixed in 1689 at five English ships to every three Dutch, and the Republic put its money into an army that held the French at bay on land.[48]

The year 1688 is also the date de Vries and van der Woude give for the emergence of the modern form of international lending, because the Dutch-backed overthrow of the English restoration monarchy in the Glorious Revolution made England creditworthy for Dutch money. The Bank of England of 1694, a private company that lent the state its war chest in exchange for the privilege of state note issue, gave Dutch money somewhere to go. Notably, the Dutch-English Glorious Revolution also sparked initial colonial rebellions in the American colonies, increased the power of Parliament itself in England, and ended the era of a semi-restored "Absolute Monarchy" in England. Such "Absolute Monarchies" would continue for centuries throughout the rest of continental Europe, especially Central and Eastern Europe, a survival that would shape the next struggle over European power.

The wars against the French King Louis XIV ran from 1688 to 1713 with one short peace, and the Republic won them and was finished by them. Its public finances were exhausted years before the peace, and in July 1709 the admiralty of Amsterdam told Anthonie Heinsius, the grand pensionary who ran the Republic's affairs, that it would come to a standstill without cash. At Utrecht in 1713, Britain took Gibraltar, Minorca and the contract to carry slaves to Spanish America, and the Republic took a line of needed fortresses. After 1713, the regents gave up the pretensions of a great power to pay down their debts, the navy was let go, and when Britain called in 1744 for the 20 ships the treaties owed, the

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[48] Jonathan I. Israel, The Dutch Republic (1995), on the crisis of 1672, the invasion of 1688 and the subsequent Anglo-Dutch alliance.

Republic could not send them. The incumbent had defended its security inside a coalition with its successor at the cost of economic stability, a pattern again repeated in the Third Transition between England and the United States.[49]

In 1720, the South Sea Company converted British national debt into its own shares and lent buyers the money to buy them, and the same year John Law did the same in Paris with the Mississippi Company, and both schemes collapsed inside the year. Parliament confiscated the directors' estates and restructured the Company's claims, so that the state's debt went on being paid while the buyers of the shares took the loss. In Paris Law's notes were withdrawn, and France went without a bank of issue until 1800.[50] Once Dutch trade itself had stopped growing sufficiently or providing the "necessary returns," Amsterdam's capital started the process of flowing into English paper.[51]

The Republic had been the first economy to run on wages, shipping and manufacture, and its success raised its costs. Its rivals closed their markets with tariffs and navigation laws, its trade stopped growing, and the returns on another ship or another mill fell below the interest on a foreign loan. So the savings of Amsterdam built, in London, a state that could borrow and a navy that could close the sea to the Dutch themselves.

"How much" is the most contested figure. On P. G. M. Dickson's benchmark in *The Financial Revolution in England* (1967), "foreigners" held nearly 1/5th of the British national debt around 1750 and 4/5ths of those "foreigners" were Dutch. Dutch holdings of British stock peaked near 200 million guilders in the late 1760s, and by 1776 the estimates run to 3/7ths of the debt and 1/3rd of the British East India Company.[52] The Amsterdam crises of 1763 and 1772 broke the Dutch trade-and-finance hub: the Dutch stopped supplying new capital to Britain after 1780 and began to repatriate, and the Fourth Anglo-Dutch War of 1780 to 1784 is the moment the creditor was necessarily subordinated by the debtor it had financed.[53]

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[49] Jonathan I. Israel, The Dutch Republic (1995), on war finance and the Republic after Utrecht; C. R. Boxer, The Dutch Seaborne Empire, 1600–1800 (1965), on the eighteenth-century decline of the navy.

[50] P. G. M. Dickson, *The Financial Revolution in England*, on the settlement of the South Sea Company's affairs in 1721.

[51] Charles P. Kindleberger and Robert Z. Aliber, Manias, Panics and Crashes, 7th ed. (2015), on the South Sea and Mississippi bubbles; Arrighi, The Long Twentieth Century, chapter 3, on the Dutch turn toward foreign securities.

[52] Dickson, The Financial Revolution in England, puts foreign holdings near a fifth around 1750, the Dutch four-fifths of that; the three-sevenths figure is the contemporary estimate discussed in Wilson (1941) and Riley (1980).

[53] Arrighi, The Long Twentieth Century, chapter 3, on the Amsterdam crises and the Anglo-Dutch financial succession.

What the Dutch money built in Britain was a state that could borrow funds for the state at 3% interest to field armies and navies for lengths of time and at sizes its rivals and the predecessor empire could not. This extended to its colonial holdings, exemplified by the *sepoy* army: Clive's army of about 3,000, including some 2,100 Indian sepoys, defeated a much larger force at Plassey in 1757. Its victory joined military organization to a political bargain: Clive and the Jagat Seth bankers backed Mir Jafar's succession, and Mir Jafar withheld his cavalry from the battle.[54] This mode of war the fiscal-military state produced was for sale to anyone who could finance the troops and their training. The instrument was also a company that was itself a sort of state. The Dutch company of 1602 was chartered to make war and treaties, build forts and coin money. The English company that won at Plassey took the revenue of Bengal in 1765 and paid for the conquest of India with India's own taxes and soldiers, a drain Dadabhai Naoroji measured in 1901.[55] The Ottoman Empire, Egypt, and after 1868 Japan also studied British methods.

The Dutch Republic, meanwhile, like the Habsburgs before it, had built the apparatus that would consume it. The Patriot revolt of the 1780s tried to reform the stadtholderate, the executive office that had become hereditary, but a Prussian army put the revolt down in 1787. The Dutch Republic's advantages could not hold out indefinitely against the onslaught of the still-present absolute monarchies. Britain was easier to defend as an island off the continent, and its monarchy survived under parliamentary limits.

The Dutch Patriot rebels came back to the Netherlands in January 1795 behind a French revolutionary army. The stadtholder fled to England, and that February he wrote to the governors of the Dutch colonies to admit British forces, which handed the successor hegemon more than half of the incumbent's possessions in the East. The Republic had a land frontier with the strongest armies in Europe and Britain had the Channel, and ultimately that difference decided which merchant-state could carry a new societal form through a century of wars.[56]

The second terminal cascade was fought between dynasties and a new claim to rule in the name of a nation. Its settlement restored a coordinated order of European monarchies.

The French Absolute Monarchy, in its attempt to stymie British rivals in every theater, and in competition over influence in the Netherlands and Belgium, had overspent, become stratified, and essentially went bankrupt, causing economic chaos and even famine. The

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[54] Conventional count: about 3,000, fewer than 1,000 of them European, against the Nawab's roughly 50,000 (Dalrymple, The Anarchy, 2019). National Army Museum, "Battle of Plassey," https://www.nam.ac.uk/explore/battle-plassey. The account identifies the Indian sepoys and the bargain involving Mir Jafar and the Jagat Seth bankers.

[55] The charter of the Dutch East India Company, 1602; the grant of the diwani of Bengal to the English East India Company, 1765; Dadabhai Naoroji, Poverty and Un-British Rule in India (London, 1901).

[56] Jonathan I. Israel, The Dutch Republic (1995), on the Patriot movement, the Batavian Revolution and the stadtholder's exile; C. R. Boxer, The Dutch Seaborne Empire (1965), on the colonial consequences.

Revolution that followed abolished the monarchy in September 1792 and killed the king in January 1793. Seven months later, the revolutionary state claimed the labor of the whole population for war. From August 23, 1793, the young men went to battle, the married men went to forge arms, the women were to sew tents, the children were to shred linen, and the old were sent to preach hatred of monarchies.[57]

This "*levée en masse"* was a new form of legitimation for the state's demands on its people, grounded in the nation's own sovereignty, and it created 750,000 men under arms within a year. The Jacobin movement eventually destroyed itself in factional conflict. The revolution gave way to a dictator in the Roman sense: Napoleon Bonaparte became the levée's own dynast, a "petty emperor of a nation." Plebiscites confirmed his authority, while his armies spread a new legal code, conscription and the administrative state. This itself spread throughout the continent at the point of a French bayonet through the creation of French client kingdoms from Warsaw to Naples. The reaction Napoleon provoked among Absolute Monarchies was total, with Napoleon crowning himself and Josephine almost worse than the regicide that preceded him. Among the responses were Fichte's addresses in occupied Berlin and the Prussian citizen militia, the Landwehr, mobilized in 1813: the French "nation in arms" turned against the French themselves.[58]

By 1804, Napoleonic France, with its "Emperor of the French," represented a new way of organizing society in a Europe of old dynasties and semi-feudal economies claiming authority from God. It was an isolated revolutionary state surrounded by hostile regimes. Those regimes initially struggled, even in coalition, to match the mass mobilization the French Revolution had released.

The answer came after a decade when Napoleon's massive conscript armies could not be everywhere on the continent at once. In Spain from 1808 onward the *guerrilla* fighter got its name, tying down forces in attrition and hit-and-run warfare this new mass state formation could not spare, as Charles Esdaile recounts in The *Peninsular War* (2002). In Russia in 1812 the war was won by Russia, on Dominic Lieven's reading of the Russian archives in Russia Against Napoleon (2009), through its logistics, the quality of its army, and Alexander's coalition-building. The Revolution had taught the monarchies its method, and the coalitions mastered using the *levée* against the *levée*.

In 1815, the sea of absolute monarchies eventually crushed the Napoleonic bubble, as a Prussian army had crushed the Dutch Patriots in 1787 and the English monarchy

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[57] French National Convention. Decree of the Levée en Masse, August 23, 1793. In Frank Maloy Anderson, ed., The Constitutions and Other Select Documents Illustrative of the History of France, 1789–1907, 2nd ed. (Minneapolis: H. W. Wilson, 1908). Reproduced by Fordham University. https://sourcebooks.web.fordham.edu/mod/1793levee.asp

[58] Forrest, Alan. The Legacy of the French Revolutionary Wars: The Nation-in-Arms in French Republican Memory. Cambridge: Cambridge University Press, 2009. https://www.cambridge.org/core/books/legacy-of-the-french-revolutionary-wars/FCD38999514D8DC2EB42389C3F59A3E9; Hobsbawm, Eric. The Age of Revolution, 1789–1848. London: Weidenfeld and Nicolson, 1962.

had crushed its Republic. Again like the English monarchy's reaction after the English Civil War, the Concert of Europe absorbed the form while discarding the essence. Prussia after the Battle of Jena imported conscription, administrative rationalization, and the Stein-Hardenberg reforms as the price of fielding a modern army, and every dynasty that beat the revolution ran many of the revolution's methods thereafter. What they discarded was the essence: any element of popular sovereignty or self-determination, and the Holy Alliance of the Absolute Monarchs of Prussia, Austria and Russia declared such discarding permanent, a return to natural dynastic order.

Plekhanov, writing for the revolution's centenary, read the collapse the way I read every premature formation: the sans-culottes and Jacobins reached for a new order, which neither their own capacity nor the means of production of 1793 could carry, but the revolution's social content survived them, such that the Restoration did not even try to undo it.[59]

Britain financed the coalitions that beat Napoleon, about 66 million pounds in subsidies and loans between 1793 and 1816 on John Sherwig's count in *Guineas and Gunpowder* (1969), 8% of a military cost of 830 million pounds, the Peninsular allies alone drawing 19 million.[60] British credit sustained armies fighting on the continent as well as Britain's own forces.

Regardless, Britain stood outside a newly forming Holy Alliance with its navy and its pound. Britain helped the absolute monarchs create the peace but declined to join their formal enforcement arrangement. Paul Schroeder's *Transformation of European Politics* (1994) reads this as a new kind of order alongside the dynastic restoration.

The Restoration could not undo the transformation of the productive base. **The French Restoration was reaction against an irreversible economic and political change, and it cracked by 1830, broke in the revolutions of 1848, and was steadily hollowed by the self-determinative national unification wars of the 1860s-1870s, and the birth of the French Third Republic.** By 1945 the dynastic principle was finished as a way of organizing the vast majority of so-called "great powers," including in the states that had won the World Wars. The French Revolutionary bubble of a new organizing method that itself became "corrupted" by a "people's Emperor," lost the war, and even so the sea of absolute monarchy took on its content, the form first and, despite the monarchies' best efforts, the essence a century later.

The French Revolution and English Revolutions (one Republican, one Glorious, and one Industrial) spread a mode of production before it was codified. The French Revolution abolished the guilds and the internal customs barriers in 1791. It began the process of putting a free market in labor and goods where the corporations and the tolls had been. The growth of machines then began to let untrained hands do what seven-year

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[59] G. V. Plekhanov, "Wie die Bourgeoisie ihrer Revolution gedenkt", Die Neue Zeit, 1890–91, translated as The Bourgeois Revolution: The Political Birth of Capitalism.

[60] John M. Sherwig, Guineas and Gunpowder: British Foreign Aid in the Wars with France, 1793–1815 (1969).

apprenticeships had done, and the handicraft producer who had lived comfortably under privilege met factory prices he could not match.[61]

Where this new embryonic method of organizing the economy and society spread, the countryside's supplementary industries collapsed, the young moved to the cities for a wage, and the wage did not feed a family. By the 1830s the poverty of wage laborers had become ***the*** primary social question. Liberal progressives fought over its solution with conservative reformers and charity societies, whose tradition Bismarck's social insurance would later extend. "Feudal socialists" wanted guild and artisan relations restored. The Communist Manifesto's authors wanted workers to abolish the wage relation itself.

Prussia's trade-freedom edict of 1810 and the German customs union, the Zollverein, established in 1834 carried the French Revolution's economic content into Absolute Monarchies that had beaten it, as the Landwehr had carried its conscript military content.[62]

Arno Mayer's *Persistence of the Old Regime (*1981) names this survival of absolute monarchy and semi-feudal relations in continental Europe as a result of the restoration, even in the face of growing industrial development. The true beneficiary was London, whose capital had financed the coalitions, had embraced industrialization, inherited Dutch and Spanish colonial possessions and control of the seas and trade, and now financed the world. Mayer himself argues that restoration of absolute monarchies in continental Europe held for a full century: landowner, crown, and church governing Europe in 1914 much as they had in 1815, until the growing underlying transformation of the economic base's evolution via industrialism and urbanization finally produced a terminal cascade and new crucible war that ended the monarchies.

The class of wage laborers that the new wage relation, mechanization and industrialization made was a minority for a long time after it was named: as late as the 1870s the mass industrial proletariat was concentrated in urban Britain, Belgium, the Rhineland and Saxony, the north of France, and the mill towns of the American northeast. The rest of Europe and America was still largely peasant, artisan, and clerk. This itself explains why the "old regime" could persist and why revolutions in societal organization came where and when they did. It also explains that "developed capitalism" only solidified its control of continental Europe in the 20th century, not the 19th as is commonly assumed through a false generalization of the British case.[63]

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[61] Eric Hobsbawm, The Age of Revolution, 1789–1848 (1962), chapters on the French and Industrial Revolutions; Karl Marx, Capital, vol. 1, chapter 15, on machinery and the transformation of handicraft labor.

[62] Eric Hobsbawm, The Age of Revolution, 1789–1848 (1962), on the spread of economic liberalization and the German customs union.

[63] Eric Hobsbawm, The Age of Capital, 1848–1875 (1975), on the geography of industrialization; Arno J. Mayer, The Persistence of the Old Regime (1981), on the continued weight of agrarian elites.

The durable carrier of the new mode of societal organization in Britain was never the "revolutionary bubble," or was only it for a brief time: it was the first hollowed monarchy that had been forced to abandon absolutism through its own failed revolutions and civil wars, and whose restoration still led and financed the coalitions against the visible Revolution itself.

Britain was where social-property relations were parliamentarian and capitalist before any formal political settlement made them officially so, and represented an agrarian capitalism under improving landlords, tenant farmers and wage labor, the crown reigning while the parliaments and propertied classes ruled. The first industrial society still wore the clothing of monarchy.[64]

The Lords and an established state church opposed to Catholic universalism existed as residue over a capitalist essence that subordinated such residue over the following century: the franchise widened, the Corn Laws repealed in 1846 against landed interests, the crown and church reduced toward an empty ceremony.

The Chinese comparison concerns this fusion: a new mode of production and society carried inside an old form, controlling trade and production. In this sequence, the revolutionary states that first made a new social order visible did not become the states that consolidated it globally, even when their revolutions were necessary to begin the process. The settlement of 1688 kept the crown and put the propertied behind it, so that what a state was could not be read off its form, which is the rule this work applies to the fourth successor, and why its class content is left to the tests.

As the historian E.H. Carr notes himself in *From Napoleon to Stalin* (1980), in this view, Napoleon stands to the revolution of 1789 as Stalin stands to 1917, a "post-revolutionary stabilization" that deforms some initial egalitarian content of the revolution while it preserves and spreads a new mode of societal organization into the old system. This old system "persists" when the initial vehicle is contained and destroyed by a coalition of the "old order" in 1815, and arguably again in 1991.[65]

France therefore held in one transition the two seats that Germany and the Soviet Union would divide in the next: the same-form rival that fights the succession and loses it, and the early emergence of a 'pure version' of a new form that is both destroyed and copied. In both transitions, the heir was a third party: the incumbent's ally and its debtor turned creditor. Britain after 1689 and America after 1917.

In this "Second Transition" Western centrality expanded from chokepoint system to the world market, Bengal after Plassey, the Atlantic slave system expanded with the companies and the need of a constantly expanding market that, in the Manifesto's sentence, chased the bourgeoisie over the whole surface of the globe. The capital relation expanded in its own

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[64] Wood, Ellen Meiksins. The Origin of Capitalism: A Longer View. London: Verso, 2002. https://www.versobooks.com/products/1782-the-origin-of-capitalism

[65] Carr, E. H. From Napoleon to Stalin and Other Essays. London: Macmillan, 1980. Library record: https://ci.nii.ac.jp/ncid/BA00865491

kind for the first time: the expropriation of the English agricultural population that Marx traced from the enclosures to the factory, made the "free laborer," the person with nothing to sell but their labor-power.

US hegemony's embryonic form was born in this transition as another revolution, a debtor and a frontier. Marx read the frontier as the thing that kept the wage relation from fully binding there: conquered and exploited land in the colonies letting the laborer become a proprietor, and forcing US capital to import indentured laborers by the shipload. The US therefore ran capitalism for a century before becoming the hegemon without a majority of its population in the proletarian class capitalism is made of.

The Dutch lent to its great rival of Britain, and Marx noted in 1867 that the same thing was going on between England and the United States. [66]

The Dutch claims were destroyed by the same wars that crowned their debtor. The French armies arrived in 1795. By 1808 the state had stopped paying interest, and in 1810 Napoleon's decree paid interest on one third of the public debt and deferred the rest.[67] The lenders of Amsterdam, who had lived on that interest, took the loss. The pattern holds: the claims die, and the production they financed carries on under a larger flag.

The levée shows a rule that this history will repeat with the national debt, the machine gun, the planned war economy and the bomb. A challenger's method forces the old order to adopt the form, and every adoption raises the scale of the next contest for everyone.

VII. London: The Factory and the Rentier, 1815 to 1945

Britain is where the detour through production reaches its classical form: the factory, with machines on one side and people who own nothing but their labor on the other. Cotton, coal, iron and rail drew millions into the wage, and the wage became the way a whole society lived. Its autumn came the usual way. From the 1870s prices and profits fell for two

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[66] Marx, Capital, vol. 1, chs. 27 to 28 and 33; Marx and Engels, Manifesto of the Communist Party; Marx, The Class Struggles in France; Arrighi, The Long Twentieth Century, 14.

[67] The 1810 measure is known as the tiercering. On the measure see Jan Luiten van Zanden and Arthur van Riel, *The Strictures of Inheritance: The Dutch Economy in the Nineteenth Century*, trans. Ian Cressie (Princeton: Princeton University Press, 2004), 51. Interest due fell from about 41.5 million guilders to about 13 million; the figures are from J. Th. de Smidt, ed., *Van tresorier tot thesaurier-generaal: Zes eeuwen financieel beleid in handen van een hoge Nederlandse ambtsdrager* (Hilversum: Verloren, 1997), 264.

decades while American and German industry caught up, and British capital went abroad.[68] The City learned to live on interest from railroads in other people's countries.

The third transition opened with the British Empire at the height of its military and financial reach. Panics are the record of that reach outrunning the imperial freight the system was built to carry. The City and its imitators lent ahead of traffic: Britain's railway mania of the 1840s built lines no freight could pay for and broke in 1847. In 1873 the Vienna exchange crashed in May, and Jay Cooke's house failed on the Northern Pacific in September, opening a Long Depression that ran, on most counts, into the 1890s. In 1890 the Bank of England assembled a guarantee fund for Barings because the house's bad Argentine paper would have taken the City of London down with it, an early rescue of a house "too big to fail." The Barings rescue was an earlier stage in the growing role of public guarantees.[69]

In 1907, the American successor had no such institution, and panic was settled in J. P. Morgan's library by men deciding among themselves which financial houses would live and which would die. Six years later Congress built the Federal Reserve so that an oligarch's library would no longer be needed. The Empire was the lender of last resort and lent to the world, and the City of London built the US railroads and lived on the interest, the financial arc of the earlier transitions at its largest scale to date: the old center's money building an economic base that would eventually replace it.[70]

By 1913, Britain's overseas investment equaled a third of its national wealth on Michael Edelstein's count in *Overseas Investment in the Age of High Imperialism* (1982), its returns beating domestic returns by about a point per year. Roughly 40% of the issues floated between 1870 and 1913 went to railways and 30% to governments, and the United States was the largest single destination for both.[71]

European states also held about a tenth of Africa in 1870 and almost nine tenths by 1914, the partition regulated at Berlin in 1884 and 1885. The European powers divided the continent among themselves without fighting over it, and by the time of the "Great War"

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[68] British wholesale prices fell by roughly two fifths between 1873 and 1896, and industrial profits were low from the middle of the 1870s. Output went on growing, and S. B. Saul argued that the period was no depression in the modern sense. S. B. Saul, *The Myth of the Great Depression, 1873-1896*, 2nd ed. (London: Macmillan, 1985), 41, 53; Eric Hobsbawm, *Industry and Empire*, rev. ed. (New York: New Press, 1999), 105.

[69] Kindleberger and Aliber, Manias, Panics and Crashes, 7th ed. (2015), on railway finance, 1873 and the Barings crisis.

[70] Charles P. Kindleberger and Robert Z. Aliber, Manias, Panics and Crashes (7th ed., 2015), on 1847, 1873 and 1890; Robert F. Bruner and Sean D. Carr, The Panic of 1907 (2007); the Federal Reserve Act, December 23, 1913, https://www.federalreserve.gov/aboutthefed/fract.htm.

[71] Michael Edelstein, Overseas Investment in the Age of High Imperialism: The United Kingdom, 1850–1914 (1982).

only Ethiopia and Liberia were left. In the Congo, which Leopold of Belgium held as his private property, the rubber quota was enforced with a severed hand.[72]

The motives were many: prestige, strategy, religious missions, etc. but the arithmetic was the one Hobson set out in 1902: capital that could not earn at home at the rate it wanted went abroad, and it first wanted to settle in territory held by its own state. Rosa Luxemburg drew the consequence in 1913: capital accumulates by selling into what is not yet capitalist, and each partition consumes the "outside" that it lives on via expansion. The container reaching the edges of the world was simultaneously using up the conditions of its growth. By 1914, there was no more outside to divide, only divisions to contest. On this reading, rivalry over an already partitioned world helped bring the imperial powers into war with one another.[73] Further outsides remained beyond what she could foresee. Whether an "outside" remains today is part of the question posed by the US-Chinese transition.

The outside was a lever, not the engine. Marx put the colonial plunder at the dawn of capitalist production and was exact about where it worked: the treasure seized abroad floated back to the mother country and was there turned into capital, which happened only where there was capital to turn it into. Spain received the silver and stayed what it was, and England, where free labor was already yielding relative surplus value, turned plunder into machines.[74] The partition fed a system that ran on the exploitation of workers, while investment continued to spread production within an already divided world. That spread eventually moved much of the industrial base away from the old core.

The growth of European arms peaked in the same decade the interest payments did. Daniel Headrick's *Tools of Empire* (1981) names the instruments of military eclipse of the rest of the world: the steamship, quinine, the breech-loader, and the Maxim gun. Omdurman in 1898 is the exhibit, roughly 11,000 dead against 48 men on the Anglo-Egyptian side,[75] which Belloc set in a couplet the same year: "whatever happens, we have got the Maxim gun, and they have not."[76]

The cracks of European military supremacy came in the same generation that such supremacy fully completed. At Adwa in 1896, an Ethiopian army destroyed an invading

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[72] Thomas Pakenham, The Scramble for Africa (1991); Adam Hochschild, King Leopold's Ghost (1998).

[73] J. A. Hobson, Imperialism: A Study (1902); Rosa Luxemburg, The Accumulation of Capital (1913); Thomas Pakenham, The Scramble for Africa (1991); Adam Hochschild, King Leopold's Ghost (1998). About 10% of Africa was under formal European rule in 1870 and almost 90% by 1914.

[74] Marx, Capital, vol. 1, chapter 31 ("the rosy dawn of the era of capitalist production"; the treasures "floated back to the mother-country and were there turned into capital").

[75] Standard accounts: about 10,000 to 11,000 Mahdist dead against 48 killed on Kitchener's side (Churchill, The River War, 1899).

[76] Hilaire Belloc, The Modern Traveller (1898), the Maxim-gun couplet.

Italian one with rifles bought mostly from France and Russia. This was help from the Italians' rivals, as well as some weapons coming from Italy itself under the treaty it was invading to enforce.[77] At Tsushima in 1905, Japan sank a European fleet with European methods it had adopted 37 years earlier. From 1899 to 1902 Britain fought the South African Republic and the Orange Free State. After annexation, Boer forces continued guerrilla resistance. In a foreshadowing moment of what was to come, they were eventually only beaten by the deployment of "scorched earth" campaigns and concentration camps by the British.[78]

Military methods and equipment constrained what even large rebellions could achieve. The Indian soldiers of 1857 held Delhi for four months before their defeat. The Taiping held Nanjing and much of the Yangtze valley for eleven years, then fell to a Qing army partly officered by Europeans. The Mahdist state ruled Sudan for thirteen years before facing the Maxim gun at Omdurman. Eight invading powers crushed the Boxers in 1900 and billed China for the expedition. Those who acquired and adapted the new weapons and methods could defeat a European army, but a local victory did not end the wider imperial system.[79]

Ethiopia kept its independence with rifles from Italy's rivals and lost it to Italy's aircraft and gas decades later in 1936, and Japan, the only non-Western state to adopt the whole Western package, was admitted on the only terms it was offered, as an empire among empires. The victories at Adwa in 1896 and of Japan in 1905 were read across Africa and Asia as proof that the West could be beaten, and the young Nehru, at school in England, remembered the news of Japan's victories as a thrill, but what they proved was narrower. Imported weapons helped Ethiopia preserve its independence for a time. Japan went further, building the industrial and military institutions through which it would pursue conquests of its own. Defeating a Western power did not by itself end imperial expansion.[80]

The wars that opened the transition were wars of national unification that were eating away at the dynasties. Italy was assembled between 1859 and 1870, Germany in three wars between 1864 and 1871, its empire proclaimed in the Hall of Mirrors at Versailles in January 1871, and Japan's restoration of 1868 put a unified state behind an industrial program in the same decade. The growing successor fought its own. The American Civil War of 1861 to 1865 was the unification of a continental market under its industrial section, the plantation South and its slave labor destroyed.

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[77] Jonas, The Battle of Adwa (2011): the Wuchale treaty of 1889 traded territory for arms; the Gras and Berdan rifles of 1896 came from France and Russia.

[78] National Army Museum. "Boer War." https://www.nam.ac.uk/explore/boer-war

[79] Jonathan Spence, God's Chinese Son (1996), on the Taiping; Daniel Headrick, The Tools of Empire (1981), on the military technologies of conquest; Boxer Protocol, September 7, 1901.

[80] Jonathan Spence, God's Chinese Son (1996), on the Taiping; the Boxer Protocol of 1901 and its indemnity of 450 million taels; Jawaharlal Nehru, An Autobiography (1936), on the news of the Japanese victories; on Ethiopia in 1935 and 1936, the Italian campaign's aircraft and gas.

This was the era where Congress wrote the successor's actual constitution in economic law: the Homestead and Pacific Railway acts of 1862, the national banking acts of 1863 and 1864, and a protective tariff that lasted into the next century. In a single decade, four states became nations with a market, a banking system, a railway net and a mass army behind them. This was the nation doing for the developmental container what the dynasty could not, and each of the four would be a principal of the crucible war that settled the third transition.[81]

The transition also opened with a military misjudgment that would recur twice in later wars. **During the German Unification War against France in the 1870s, the Battle of Sedan taught the German Army staff that the best plan was to destroy the enemy's army so completely in the opening weeks of war that no second, extended phase could arrive, and the second phase arrived anyway.** Gambetta, the republican minister who escaped Paris by balloon, raised his provincial armies behind Napoleon III's surrender to Bismarck. The French retook Orléans from the Germans on November 9, 1870, and Moltke, the Prussian chief of staff, spent the winter fighting a war he believed he had already won, until Bismarck offered terms and a Bordeaux assembly took them.[82]

The staff therefore learned the wrong lesson: annihilate the enemy before the *levée en masse* can rise. It carried from Schlieffen to Halder through the next two wars, and each imagined a campaign won in weeks that stretched into years of attrition. The state that had built the most capable army in Europe to survive encirclement would march that army, again and again, into encirclements that the building of the army had itself created.

Germany rose inside the incumbent hegemon's system and asked for what it felt was its "fair share" of it. In the second industrial revolution's industries, Germany led: its chemical firms made most of the world's dyes, its electrical firms stood beside the Americans, and its steel output passed Britain's in the 1890s. In 1897 its foreign secretary claimed "a place in the sun" for it: the naval laws of 1898 and 1900 built a battle fleet whose only possible opponent lay across the North Sea, and the railway it began to Baghdad in 1903 pointed at the Gulf the incumbent hegemon held. The challenger's demand was re-division of territory, and the incumbent's answer was encirclement by entente with France in 1904 and Russia in 1907, the diplomatic ring Schlieffen's plan was built to break.[83] This is the model the present incumbent reads onto the fourth successor, the rising power that must demand re-division by force, and the difference this work draws later is that the fourth has built the base without asking for the colonies.

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[81] The Homestead Act and the Pacific Railway Act, 1862; the National Banking Acts, 1863 and 1864; Eric Hobsbawm, The Age of Capital, 1848-1875 (1975), on the decade of unifications.

[82] Howard, Michael. The Franco-Prussian War: The German Invasion of France, 1870–1871. London: Rupert Hart-Davis, 1961.

[83] Bernhard von Bülow, Reichstag speech of December 6, 1897; the naval laws of 1898 and 1900; Paul Kennedy, The Rise of the Anglo-German Antagonism, 1860-1914 (1980).

The levée was the first step in the totalization of war. The mass requisition of 1793 drew civilians into supplying the army as well as serving in it. The industrial wars of 1914 and 1941 extended that demand through factories, food supplies and civilian life, making the ability to sustain a whole society part of the contest. The word names three things that can come apart: the mobilization of people under arms, the conversion of production to war, and the bond between a state and the society it asks to fight. Mass mobilization can therefore serve different class interests, depending on who directs the state and what authority the mobilized population can exercise within it. Its first working-class content came at its birth, with the sans-culottes Plekhanov read as reaching for an order neither they nor the means of production of 1793 could carry, the precedent the Bolsheviks claimed when Lenin asked in 1917 whether Jacobinism could frighten the working class.

The second came in 1871, and it was still premature. Marx had warned the Paris workers in September 1870 that a rising against the new republic would be desperate folly, and he wrote afterward that Paris could not be defended without arming its working class, "but Paris armed was the revolution armed." The Government of National Defence chose capitulation over that, becoming in his phrase a Government of National Defection. Thiers opened the civil war by sending troops to seize the National Guard's cannon at Montmartre, and he crushed the Commune with a regular army rebuilt from the prisoners Bismarck released to him, the conquering and the conquered armies joining, in Marx's words, "for the common massacre of the proletariat." The bourgeoisie did not turn the levée against the workers. It disarmed the levée, which Engels called its first commandment after every rising, and fought it with a professional army and the enemy's help. The Commune's first decree had been the reverse: to abolish the standing army and put the armed people in its place. Marx drew the lesson for every later war: national war is the highest heroic effort old society is still capable of, and it proves "a mere governmental humbug" the moment the class struggle breaks out as civil war, because "the national governments are one as against the proletariat."[84]

The same decades built the counter-force the transition was supposed to produce. The International Workingmen's Association of 1864, for which Marx wrote the inaugural address, broke up after the Commune, and the Second International founded in Paris in 1889, on the centenary of the Revolution, grew into the largest organized movement of the working class the world had seen. By 1912 the German party it anchored was the largest in the Reichstag, with a third of the vote, and that November its congress at Basel pledged the workers of every country to oppose the coming war by every means. Engels had supplied the explanation of what followed before it happened, in the labor aristocracy the empire's rents paid for, and Lenin supplied it again afterwards: the superprofits of partition had bought the upper stratum of the working class in the partitioning states. Imperial rents helped bind the class's upper stratum and its leaders to the existing order, and the vote for

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[84] Marx, Second Address of the General Council on the Franco-Prussian War (September 9, 1870), and The Civil War in France (1871), chapters on the capitulation, the revolution of March 18, the Commune and its fall; Engels, introduction of 1891 to The Civil War in France; Lenin, "Can 'Jacobinism' Frighten the Working Class?" (1917); G. V. Plekhanov, The Bourgeois Revolution (Die Neue Zeit, 1890–91).

war credits in August 1914 is the national binder holding where the class binder was supposed to, with the mass of the class following its leaders into the war and, within four years, out of it.[85]

Engels, in the last year of his life, wrote the correction the tradition would need again: history had proved him and Marx wrong about 1848, because the Continent had not been, by a long way, ripe for the elimination of capitalist production, and capitalism had still had a great capacity for expansion, which the half-century since had spent planting big industry across Europe on a capitalist basis.[86]

Engels drew a forecast from the spread of conscription and industrial capitalism. In 1887 he predicted a world war of 8 to 10 million men: a Thirty Years' War compressed into three or four years, with crowns rolling in the gutter by the dozen and no one to pick them up. Ivan Bloch, a Warsaw banker, wrote in 1898 from the firepower alone that the next war would become a siege that bankrupted every belligerent, and the general staffs dismissed him as merely a banker, not a general. The Socialist International that had published Engels voted for the war credits that would create that exact conflagration 27 years later.[87]

The offensive of August 1914 of Germany against France was the Sedan plan enlarged to a continent, and it failed at the Marne in five weeks. What replaced it was the siege the banker had described, four years of it, in which the belligerents spent their reserves, their gold, their overseas portfolios, and then their men. The belligerents built the first planned economies of the industrial age to supply the trenches. Rathenau's raw-materials office opened in Berlin in August 1914; Britain established its Ministry of Munitions in 1915. Germany's Hindenburg programme put the economy under military allocation in 1916. Lenin read these developments in 1917 as the material preparation for socialism: state-monopoly capitalism had organized production on the scale he hoped a workers' state could take over.[88]

The war decided itself based on the productive capabilities of the belligerents. The blockade the British navy imposed, the American loans and then the American army that entered in 1917 outweighed everything the Central Powers could raise. Germany held the

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[85] The Inaugural Address of the International Working Men's Association (1864); the Basel Manifesto of the Second International, November 1912; the Reichstag election of 1912 (the Social Democrats 34.8% of the vote, 110 seats); Lenin, Imperialism (1917), chapter 8, on the labor aristocracy.

[86] Engels, Introduction to Marx's The Class Struggles in France, 1848 to 1850 (1895) ("History has proved us, and all who thought like us, wrong").

[87] Friedrich Engels, introduction to Sigismund Borkheim's Zur Erinnerung für die deutschen Mordspatrioten, 1806–1807 (1887); Ivan Bloch, The Future of War (1898), abridged in English as Is War Now Impossible? (1899).

[88] Gerald D. Feldman, Army, Industry, and Labor in Germany, 1914–1918 (1966); Hew Strachan, The First World War (2004); V. I. Lenin, The Impending Catastrophe and How to Combat It (1917), on state-monopoly capitalism and socialist organization.

second largest industrial base in the world and lost its home front to the blockade before it lost its army, a difference between production and reproduction we return to later. The Hundred Days of 1918 were won by the side whose factories and creditors were on the other side of the Atlantic.[89]

The war also broke the first "weak link" of the global economy. Russia mobilized 15 million men on a relatively "backward" semi-feudal economic basis, lost the army at Tannenberg and the railways to the front, and dissolved in 1917 into revolution, echoing the Bourbon French. The crucible that made the American century also made the Soviet one in the same four years. The old regime the historian Arno Mayer described did not survive the war: the Romanovs, the Habsburgs, the Hohenzollerns, and the Ottomans fell in turn, 1917, 1918, 1918 and 1922, the thing Engels had meant by crowns in the gutter with no one to pick them up.[90]

Lenin wrote the war's theory in Zurich in the first half of 1916 and published it the next year as Imperialism, the Highest Stage of Capitalism. He drew on Hobson's evidence and Hilferding's Finance Capital of 1910. Kautsky had hoped for an "ultra-imperialism" in which the powers would exploit the world jointly and in peace. Lenin argued that capital's concentration into monopolies and the fusion of banking with industry into finance capital instead sharpened their rivalry. Investment abroad had become more important than the export of goods, while cartels divided markets and the great powers had already divided the world's territory. Changes in their relative strength would therefore produce demands for re-division, and re-division would be fought through war. The war proved him right about the third transition, and the fourth is where this work keeps his mechanism and drops one of its terms. The fourth transition's successor is the largest official lender to the developing world and holds no colony, and its incumbent holds finance capital at its most concentrated with no colonies to lose, so that nuclear deterrence makes re-division by direct war between the principals potentially catastrophic, pushing the contest toward the borderlands, the rail lines and the balance sheets. Direct war remains possible; it is no longer a settlement that can safely be fought to a conclusion.[91]

The zenith of European military power was deployed against the zenith of European military power and found stalemate. The British imperial portfolio was sold to pay for the

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[89] Hew Strachan, The First World War (2004), on blockade, mobilization and the 1918 collapse; Paul Bairoch, "International Industrialization Levels from 1750 to 1980," Journal of European Economic History 11 (1982), for the comparative industrial base.

[90] Bloch, The Future of War (1898, abridged in English as Is War Now Impossible?, 1899); Engels, introduction to Borkheim (1887); Lenin, The Impending Catastrophe and How to Combat It; Feldman, Army, Industry, and Labor in Germany, 1914–1918 (1966); Strachan, The First World War (2004).

[91] Lenin, Imperialism, the Highest Stage of Capitalism (written January to June 1916, published 1917), Collected Works, vol. 22; Rudolf Hilferding, Finance Capital (1910); Karl Kautsky, "Ultra-imperialism" (1914); on the successor as the largest official lender to the developing world, AidData, Banking on the Belt and Road (2021).

war. From July 1915 the Treasury had the Bank of England buying dollar securities from British holders. By the end of 1915 it had obtained about 233 million dollars nominal,[92] and in January 1917 a Defence of the Realm regulation compelled surrenders of securities and foreign currency to the British treasury. Morgan was the purchasing agent on the other side, handling more than 3 billion dollars of Allied war purchases,[93] and in 1917 the United States crossed from net debtor to net creditor, the successor collecting the incumbent's portfolio as the price of the incumbent's war for maintenance of hegemony, which would repeat again in the next war with Germany.

The portfolio moved because the base had already moved. The United States passed Britain in steel in the 1880s and in manufacturing output before 1900. On the economic historian Paul Bairoch's series, its share of world manufacturing was 24% in 1900 against Britain's 18% and Germany's 13%, and 32% in 1913 against 14% and 15%.[94] A continental market protected by tariffs gave American firms room to grow. Immigrant labor and foreign capital entered together, while corporations and trusts coordinated production through what the business historian Alfred Chandler called the managerial revolution. Steel, electricity, oil and chemicals were built at a scale no European economy could match within its borders. By 1914 the successor held the production while the incumbent held the world's clearing, the fleet, and the law.

The successor turned outward when its own frontier closed. The census of 1890 found no line of settlement left to draw, Frederick Jackson Turner told the historians in 1893 that the first period of American history had closed with it, and in 1898 the United States annexed Hawaii and took the Philippines, Puerto Rico and Guam from Spain, then fought a three-year war to hold the Philippines. The form it chose afterwards was its own. The Open Door notes of 1899 and 1900 asked for equal access to China's market and no share of its territory, the Roosevelt corollary of 1904 made the hemisphere a zone the United States would police, and its first chokepoint was one it dug: the canal across an isthmus it had helped detach from Colombia opened at Panama in August 1914, the month the incumbent's war began. Access in place of colonies, the police power in its own hemisphere, and a strait of its own making were the shape the successor's hegemony would take, and they are the shape the later chapters find contracting back to the hemisphere.[95]

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[92] Norma Cohen, "How Britain Paid for War" (PhD thesis, 2019), chapter 1, especially p. 41, on the dollar-securities purchases and the $233 million year-end total.

[93] Bank of England figures for the dollar securities scheme; Morgan's purchasing agency handled about $3 billion of Allied orders (Chernow, The House of Morgan, 1990). Some sources conflate the two.

[94] Bairoch, "International Industrialization Levels from 1750 to 1980" (1982).

[95] Frederick Jackson Turner, "The Significance of the Frontier in American History" (1893); John Hay's Open Door notes, 1899 and 1900; the Roosevelt corollary to the Monroe Doctrine, December 1904; the Panama Canal, opened August 15, 1914.

The successor also held the fuel of the next century's enforcement. The first commercial oil well was drilled in Pennsylvania in 1859, Rockefeller's Standard Oil had consolidated most of American refining within two decades and was broken up by the Supreme Court in 1911, and American wells produced about two thirds of the world's crude through the 1920s. The incumbent's fleet ran on coal it mined at home until Churchill, at the Admiralty, committed the navy to oil in 1912, and oil the incumbent did not have at home had to be held abroad. In May 1908 a British syndicate had struck it at Masjed Soleyman in southwest Persia, and in June 1914 the British government bought control of the Anglo-Persian company that was pumping it. From 1914 the incumbent's navy depended on the Gulf, the Gulf became a chokepoint of empire again four centuries after Albuquerque, and the enforcement that has run through Hormuz ever since, British and then American, begins with the decision to burn oil in battleships.[96]

The first attempt at a post-World War I settlement failed as a new organizing form without a true guarantor. The US Senate rejected the US proposal for the League of Nations in 1919 and 1920. In *The Economic Consequences of the Peace* (1919), Keynes described a settlement that demanded reparations Germany could not pay and stability no one would fund. The Senate's refusal to join the League showed that the power whose economy had helped win the war would not yet bear the political and military costs of the settlement. As a result, the Japanese invasion of Manchuria in 1931 and Italian invasion of Abyssinia in 1935 showed what a covenant without a power behind it was worth, and Charles Kindleberger's sentence in *The World in Depression* (1973) explains the decade between: the depression was so wide, so deep, and so long because Britain could not and the United States mired in isolationism would not assume responsibility for stabilizing the system.[97]

The League's rules failed in Manchuria and Abyssinia because no power was willing to enforce them. In 1945, a new settlement acquired American backing. The later breakdown begins when that guarantor refuses to be bound by its own rules, but the original settlement had exclusions from the start.

Versailles wrote the first world order in law: a covenant, a league, an assembly, a court, and the principle that borders and sovereignty were to be settled by rules and not by the last army standing. It applied the principle to Europe's new "self-determinative" states, carved from the empires the war had broken, and it withheld the principle from essentially everyone else, still colonial possessions. The Ottoman and German possessions went to the victors as mandates, a legal form for a partition, Sykes-Picot with a covenant on top. The German rights in Shandong went to Japan and not to China, which had sent laborers to the Western Front, and students who marched in Beijing on May 4, 1919 against that clause founded, two years later, the party Part Four of this book is about. The racial-equality

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[96] Daniel Yergin, The Prize: The Epic Quest for Oil, Money, and Power (1991), on Titusville, Standard Oil, the Admiralty's conversion and the Anglo-Persian purchase; the agreement with the Anglo-Persian Oil Company, approved by Parliament on June 17, 1914.

[97] Kindleberger, Charles P. The World in Depression, 1929–1939. Berkeley: University of California Press, 1973. https://www.ucpress.edu/books/the-world-in-depression-1929-1939/paper Chapter 14, "An Explanation of the 1929 Depression."

clause Japan proposed for the covenant was rejected by the chair's ruling that unanimity was required, and a young Vietnamese in Paris who petitioned the conference for his country's rights was not answered. Self-determination was a European right in 1919, and the peoples it was denied to learned the lesson the same year.[98]

The war of 1914 did in four years what the wars of 1618 had taken thirty to do. Industrial production fed the front at a rate no treasury of the seventeenth century could have imagined, and the destruction arrived at the same rate. Four empires broke. The claims went with them: London's foreign portfolio was sold to pay for shells, and a decade later the successor's own banks failed by the thousand. More than 9,000 American banks suspended between 1930 and 1933, and their depositors' claims died with them.[99] Panic, bankruptcy and war were clearing the ground together.

The two wars converted the base into hegemony in three steps. The first war made the debtor a creditor. The 1920s made the creditor the system's lender, the Dawes plan of 1924 recycling American loans to Germany into reparations to Britain and France and war debts back to New York. And the second war made the new hegemon: Lend-Lease at $50 billion, 300,000 aircraft, 2,700 Liberty ships, the carriers, and the bomb, with Bretton Woods and San Francisco written before the shooting stopped. The base moved before 1914, the wars made it hegemony, and the settlement crowned the newer, larger container. The challengers' century that follows is what this crucible made on the other side.[100]

Before the first World War and again after it, another organizing form crystallized twice. After the Franco-German Unification War, the Paris Commune of 1871 raised a working class army to fight both the remnants of the French Empire and the invading Germans, and was crushed in a week in May, at a cost the sources put between 6,000 and 30,000 dead.[101] The British and French governments absorbed its form and discarded its essence:

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[98] The Covenant of the League of Nations; MacMillan, Paris 1919 (2001); Manela, The Wilsonian Moment (2007), on Shandong, May Fourth, and the Vietnamese petition; Shimazu, Japan, Race and Equality (1998); Keynes, The Economic Consequences of the Peace.

[99] Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963), https://nber.org/system/files/chapters/c9276/c9276.pdf; Gary Richardson, "Banking Panics of 1930-31," Federal Reserve History, https://www.federalreservehistory.org/essays/banking_panics_1930_31.

[100] Bairoch, 'International Industrialization Levels from 1750 to 1980,' Journal of European Economic History 11 (1982); Chandler, The Visible Hand (1977); Kindleberger, The World in Depression (1973); Lend-Lease totals from the State Department's report of 1945; the aircraft and ship figures from the War Production Board's Wartime Production Achievements (1945).

[101] Tombs, "How Bloody Was la Semaine Sanglante?" (2012), revises the dead to 6,000 to 7,500; Merriman, Massacre, gives 12,000 to 15,000 and perhaps more; older estimates ran from 17,000 to 35,000.

municipal democracy and the secular social republic went into the Third Republic and into continental social democracy, and actual proletarian self-rule went into the ground at Père Lachaise, in the accounts of Robert Tombs (1999) and John Merriman (2014). The Russian Revolution and the Soviet Union that grew from it was the second that again attempted proletarian self-rule, which this time lasted 74 years instead of 72 days.

The Soviet state that eventually beat the German Nazi armies had spent 20 years building what Gambetta improvised in four months: universal service from September 1, 1939 and a trained reserve near 14 million. Industry sited away from the western border, which Svechin had prescribed in 1927 before the state shot him in 1938 and then fought the war he had described. Attrition first and deep operations after Stalingrad, and a commissar system restored in 1941 in a line that runs back through Trotsky to the représentants en mission of 1793: the form of the Jacobin army, again utilized by a state that had destroyed its Jacobins, and which abolished the commissars again on October 9, 1942, once the front held.[102]

The perfection was yet again in regeneration, and at one point on the map it was literal: Orléans fell again on December 4, 1870 but the French Loire campaign of the *levée* against Germany collapsed. Moscow held in December 1941, the Germans came again in 1942 toward the Caucasus and the Volga and were broken at Stalingrad, and after Kursk in 1943 the initiative never came back to them. Some 229 division-equivalents were lost in 1941 and regardless, a fourth army was raised for Stalingrad.[103] Bismarck offered terms to France, but in 1941 no terms existed on either side.

The Second World War had an important second axis to note. The Central Powers of the first war had included the Ottomans, the non-Western empire that entered the crucible as a declining state and was partitioned by it under the new laws. The Axis of the second included Japan, the non-Western power that had entered the West's system as a rising one, on the West's own terms, and had risen to parity. The Meiji state had adopted the whole package: the conscript army, the fleet, the constitution, the corporation, the empire. It worked: the alliance with Britain in 1902, the defeat of Russia in 1905, the seat at Versailles among the five great powers, but what such a package could not buy was equality. The racial-equality clause was refused in 1919, the Washington treaty of 1922 fixed the Japanese fleet at three fifths of the American and British ones, and the immigration act of 1924 closed the United States to the Japanese by name. The lesson Tokyo drew was the one the system had taught, that the powers admitted to the system were empires, and it

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[102] David M. Glantz, Stumbling Colossus: The Red Army on the Eve of World War (1998), on mobilization and reserves; Aleksandr Svechin, Strategy (1927), on preparing for a war of attrition.

[103] Glantz, David M. Stumbling Colossus: The Red Army on the Eve of World War. Lawrence: University Press of Kansas, 1998. https://kansaspress.ku.edu/9780700617890/ For the figure of at least 229 division-equivalents lost in 1941, see Daniel C. Holtrop's review, H-Russia, November 2000, https://artefacts-discovery.researcher.life/full_text/DA-2/5a/5a9fc49090ee3b0a901e2778a03af33f/full_text/e8e50688118ee35c05685c03cd2cbcd7.pdf.

assumed that an invasion of Manchuria in 1931, China in 1937, and the co-prosperity sphere of 1940 was the true price of membership.[104]

The Chinese leadership had Japan's defeat in front of it in 1949 and has kept it in view since: our current potential successor has built the fleet, the yards, and the economic base and has not taken a colony, because the one non-Western state that reached the West's edge by the West's method was consumed. Japan, like the French and Germans, had built an empire on an economic base it could not sustain.

The actual settlement was written in two halves: Bretton Woods in 1944 wrote the monetary half and San Francisco in 1945 the juridical-political half, a Concert of Europe reborn as five permanent seats and their vetoes, and the beneficiary was Washington, whose capital had financed both wars and whose industry had built the arms for both. Destroyers-for-Bases marked an official handover of hegemony from Britain to the US that had been underway for many decades prior.

The war that produced these settlements ended with the atomic bomb by the new US hegemon which too cemented its position. At the precise moment the levée was institutionalized as the whole of the industrial state, the bomb made general war between the principals potentially catastrophic for victor and defeated alike. The means of total war had reached the point where using them could destroy the settlement the war was meant to secure.

The next crucible could not be finished the way the last one was, and many believed such transitions and crucibles to be permanently over.

In the Third Transition: Western centrality peaked and was then divided: the scramble for Africa, the Maxim gun, Omdurman, the world partitioned among six powers by 1914 in the form Lenin called imperialism, Japanese expansionism, and all "Chinese walls" battered down by cheap commodities as the Manifesto had predicted.

Marx wrote out in 1853: he expected a Chinese revolution to "throw the spark into the overloaded mine of the present industrial system and cause the explosion of the long-prepared general crisis…" a "peripheral" crisis detonating the core. He was writing about the Taiping Rebellion and Opium Wars, which themselves did no such thing.[105]

The present transition is moving in the direction Marx anticipated. In the nineteenth century, however, the capital relation continued to expand through the credit system, the joint-stock company, and the export of capital. Engels wrote to Marx in 1858 that the English proletariat was becoming more and more bourgeois, a "labor aristocracy" the empire's rents paid for.[106]

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[104] Beasley, Japanese Imperialism 1894–1945 (1987); Shimazu (1998); the Washington Naval Treaty (1922); the Immigration Act of 1924.

[105] Marx, Karl. "Revolution in China and in Europe." New-York Daily Tribune, June 14, 1853.

[106] Marx and Engels, Manifesto; Marx, "Revolution in China and in Europe," New-York Daily Tribune, June 14, 1853; Marx, Capital, vol. 3, ch. 27; Marx, "The North American Civil War,"

The third transition is the precedent the present has to beat. The City financed the successor, sold its portfolio to pay for the war, and watched the base it had financed carry the system on. The succession renewed capitalism and extended Western power. That renewal came through the catastrophes of 1914 to 1945. Capitalism's expansion had already suffered an immense rupture, and the American settlement restored its capacity to grow. A contraction can therefore be reversed.

A fourth transition that repeated that recovery would end the American era and leave capitalism expanding under a new center. I claim more, and must show why the arrangements now forming cannot achieve a comparable renewal. The presence of exclusion or dispossession cannot decide the comparison, because the expanding orders practiced both.

VIII. The Suppressed Years, 1917 to 1971

The challengers' century is the first in the series in which European centrality lost ground, its first large-scale contraction since 1492: Russia in 1917 and China in 1949 left the capitalist world market and became world powers themselves, representing a third of humanity. Anti-colonial rebellions ripped through exhausted European empires, and the "Third World" of national liberation movements flourished.

The capital relation responded by expanding through concessions and not conquest: the welfare settlements of the imperial powers to placate socialist impulses, and the formation hand-in-hand with the settlements of the imperial "middle class" the post-war golden ages paid for. **The New Deal and the postwar order again absorbed in form but not in essence: the capital relation conceding to its own working class what the encircled socialist formations had made thinkable.**

US hegemony expanded toward its peak on the same fear: containment of Communism, the Marshall Plan rebuilding of the ruined Europe, the anti-Soviet NATO alliance, the nuclear bomb as enforcement medium, the dollar as clearing unit. The American rate of profit crested in the mid-1960s, the decade before the turn of 1978, the new hegemon's summit and the Soviet-Chinese spring two sides of the same decade.[107]

The reforms of the 1930s are a way out that worked, and the conditions under which they worked matter more than the reforms. Roosevelt's government separated the banks from the speculators, taxed the top, legalized the unions and spent public credit on dams and

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Die Presse, October 25, 1861; Engels to Marx, October 7, 1858; Lenin, Imperialism; Arrighi, The Long Twentieth Century, 14.

[107] Moseley, Fred. The Falling Rate of Profit in the Postwar United States Economy. London: Macmillan; New York: St. Martin's Press, 1991.; Paitaridis, Dimitris, and Lefteris Tsoulfidis. "The Growth of Unproductive Activities, the Rate of Profit, and the Phase-Change of the U.S. Economy." Review of Radical Political Economics, 2012. https://doi.org/10.1177/0486613411423899.

roads. It did so with sit-down strikes in the plants and a rival system industrializing in the east. Capital accepted the bargain because the alternative looked worse.

The bargain left the Depression in place. When the government eased off in 1937, the economy relapsed: output fell by a tenth and unemployment went back to a fifth of the workforce.[108] What ended it was the war. Mobilization took in the unemployed, the state directed investment and held down the return to finance, and the bombing of Europe and Asia destroyed the plant of every rival. In 1945 one industrial power stood intact, holding the factories, the gold and the fleet, and it could afford high wages and regulated banks because nobody else could compete.

So the recovery had three causes, and reform was the smallest. There was a threat that forced the concession. There was idle capacity for the reflation to fill. And there was a war that destroyed the claims and the competitors together. The treatment held the disease down for a generation. It cured nothing, because ownership and the need to accumulate were left where they were.

The threat can be counted. In 1934 a million and a half workers struck, among them the truck drivers of Minneapolis, the dockers of San Francisco and the auto-parts workers of Toledo, in strikes that became battles for their cities. The law protecting the right to organize passed the following year. In the winter of 1936 the auto workers at Flint sat down inside the plants of General Motors for forty-four days and came out with a contract. When the war ended the pressure came all at once. In 1946 about 4.6 million workers were involved in stoppages, more than in any earlier year on record and about one employed worker in seven, and the time lost was 116 million working days, three times that of the year before.[109] Steel, coal, the railroads, meatpacking, the electrical plants and General Motors were all shut within a few months of one another.

Capital answered in two ways at once. Congress restricted the unions in 1947, over a presidential veto, and the unions expelled their own left wing in the years after. And the largest employers settled. The contract of 1950 described below was signed by a company that had been struck for 113 days four years earlier. The settlement of the suppressed years was offered to a workforce that had shown it could stop the country, by owners who could see across the ocean what happened where the stopping went further.

The treatment had four parts. Each part of it named a route by which money makes money without production, and closed that route.

The first part separated the banks. The Banking Act of 1933 forbade a bank that took deposits to underwrite and deal in securities, insured the small depositor, and capped the

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[108] Patricia Waiwood, “Recession of 1937-38,” Federal Reserve History, November 22, 2013, https://www.federalreservehistory.org/essays/recession-of-1937-38.

[109] U.S. Bureau of Labor Statistics, *Work Stoppages Caused by Labor-Management Disputes in 1946*, Bulletin 918 (1947), https://www.bls.gov/wsp/publications/annual-summaries/pdf/work-stoppages-1946.pdf.

interest a bank could pay to attract his money. A bank became a dull business that lent to firms and households in its own district. After the war a bank failure became a rarity. The securities laws of 1933 and 1934 made a company open its books before it sold shares, and they left a company that bought its own shares in volume exposed to a charge of manipulating the price, a risk that stood until 1982.

The second part held the price of money down. From 1942 the Federal Reserve pegged the yield on government debt, and after 1951 regulation and inflation did the same work more quietly. For the advanced economies as a group, the real rate of interest was below zero in about half the years from 1945 to 1980, and for the United States the transfer from creditors to the Treasury has been estimated at three to four per cent of national income a year.[110] The war debt, which stood above a year's output in 1946, was never repaid. It was inflated and outgrown. The economists who measured this called it financial repression, and the name is exact: the creditor was made to hold paper that lost value, and the state and the borrower gained what he lost. This was the destruction of claims by inflation, one of the old ways out, administered over thirty years in place of a crash.

The third part fenced the currency. Under the agreement reached at Bretton Woods in 1944, exchange rates were fixed against a dollar that was fixed against gold, and governments were permitted and expected to control the movement of capital across their borders.[111] Money could cross a frontier to pay for goods. It could not easily cross to hunt a higher return. A firm that wanted the American market had to build in America, and a firm that wanted a profit had to make something.

The fourth part taxed the top and paid the bottom. The highest rate of federal income tax stood above 90% from 1951 to 1963. Unions, protected by law since 1935, enrolled about a third of the wage and salary workers outside agriculture by the middle of the 1950s.[112] In 1950 General Motors signed a five-year contract with the United Auto Workers that tied wages to the cost of living and to productivity and added pensions and health insurance, and the pattern spread across heavy industry. For a generation the wage rose with output, which is the condition under which goods made by a mass workforce can be sold to it.

The four parts answer the circuit described in the primer. Money can make money without production in a few ways: by lending at interest, by trading claims, by moving to wherever the return is highest, and by raising the price of a firm's own paper. The regimen capped the first, walled the second off from the deposit base, fenced the third, and left the fourth under a legal cloud. Nothing in it touched ownership. The firms stayed private and the

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[110] Carmen M. Reinhart and M. Belen Sbrancia, "The Liquidation of Government Debt," NBER Working Paper 16893 (March 2011), https://www.nber.org/papers/w16893. The version published in *Economic Policy* 30, no. 82 (2015): 291-333, gives a range of about 1 to 5 per cent across twelve countries.

[111] Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, 2nd ed. (Princeton: Princeton University Press, 2008), chap. 4.

[112] Gerald Mayer, *Union Membership Trends in the United States*, Congressional Research Service Report RL32553 (August 31, 2004).

motive stayed profit. What changed was that for a generation the easiest way to obtain a profit was to build a plant and hire, and so plants were built and people were hired.

The result shows in where profits were made. Through the 1950s and 1960s the financial sector took about an eighth of the profits earned in the United States. By about 2000 it took two fifths.[113] In the suppressed years finance was a service that industry paid for. Afterward it was where the profit was.

Three things must be said against nostalgia for those years. The settlement was bought with a war that killed tens of millions, and it was held in place by fear of a rival that had industrialized without capitalists. It excluded much of the workforce: the farm and domestic workers left out of the labor and pension laws of 1935 were, in the South, mostly Black, an exclusion that historians have tied to the votes of Southern Democrats.[114] And it rested on an outside. Cheap oil from the Gulf and raw materials from countries that had flags and little else kept the cost of the settlement low. The suppressed years were good years for the organized workers of the core and for few others, and they lasted as long as the conditions that forced them.

The Soviet Union was a bubble of a claimed post-capitalist form on a sea of capitalism, isolated by Kennan's containment and the "domino theory" of US interventionism. The bubble was popped in 1991 and followed by a Restoration that called itself "the end of history." The Restoration ran the post-Napoleonic Concert's script to the letter: the victors declared the result permanent, absorbed the form, and discarded the essence. The sea of capitalism had already been transformed by the bubble's existence: the welfare state, the New Deal settlement, European social democracy, nationalized industries, full-employment commitments, decolonization under pressure: the core adopted socialistic forms as inoculation while discarding socializing essence. Then the Soviet bubble popped and this time the "Old Regime" began shedding both the content and the form, during the period of Chinese Reform and Opening up, the neoliberal turn predating 1991 and accelerating after it because a disciplining alternative was essentially already gone.

By 1949 the Soviet Union had its own nuclear bomb. I argue that deterrence opened room for a less militarized, more gradual development path, but the state remained locked into the Stalinist course that had won the war: the Stalin compression run past its expiration date. The framework that had won the war could not perceive that the advent of nuclear weapons had fundamentally changed the conditions of national security, or that the continued US threat required adaptations other than ***more*** military-industrialization and power-concentration in the Party.

Two of the old ways out closed in these same years. The bomb, American in 1945 and Soviet in 1949, meant that the next general war between great powers could not be

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[113] Greta R. Krippner, "The Financialization of the American Economy," *Socio-Economic Review* 3, no. 2 (2005): 173-208; Gerald F. Davis and Suntae Kim, "Financialization of the Economy," *Annual Review of Sociology* 41 (2015): 203-21.

[114] Ira Katznelson, *Fear Itself: The New Deal and the Origins of Our Time* (New York: Liveright, 2013).

survived, so war could no longer clear the ground for a successor. And the colonies won their flags, so the outside that each earlier recovery had grown into was now a world of states. The suppressed years ended when the rivals rebuilt.

The regimen failed from inside before anyone repealed it. Its success rebuilt the rivals. By the middle of the 1960s German and Japanese plants, newer than the American ones and paying lower wages, were selling into the American market, and the rate of profit in American manufacturing began the fall described in the next chapter. Capital that could no longer earn its accustomed return behind the fence went looking for a gate.

It found one in London. From the late 1950s banks in the City took deposits in dollars and lent them on, outside the reach of American interest ceilings and reserve rules and with the consent of the British authorities.[115] American banks opened London branches to do what they were forbidden to do at home. Each attempt by Washington to tax or restrain the outflow sent more business offshore. A fenced currency with a hole in the fence is a fixed price waiting to be attacked. Dollars held abroad came to exceed the gold that was supposed to stand behind them, and the war in Vietnam and the spending at home added to the supply. In August 1971 the President closed the gold window, and by 1973 the fixed rates were gone.

The other restraints went in the order in which they obstructed the return. Interest ceilings were lifted between 1980 and 1986. The rule that turned the buying of one's own shares from a risk into a routine came in 1982. The top rate of income tax was 28% by 1988. Union membership fell below a fifth of the workforce in the middle of the 1980s. The wall between the deposit bank and the securities house was pierced through the 1990s and repealed in 1999. Each repeal was argued on its own merits, and some had merits. Taken together they are the regimen read backwards.

So the suppressed years teach two things the rest of this book depends on. The condition can be held down by law, which means the turn to money from money is a matter of what the law permits. And the law held only while three things stood behind it: an organized workforce, a rival system, and a rate of profit in production high enough that capital could bear the restraint. When the third went, capital withdrew its consent, and the first two were not strong enough to compel it.

IX. The Long Liquidation, 1971 to 2026

The crisis of returns arrived in the second half of the 1960s. With German and Japanese factories back in the world market, the rate of profit in American manufacturing fell by more than two fifths between 1965 and 1973.[116]

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[115] Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994), chap. 4.

[116] Robert Brenner, *The Economics of Global Turbulence* (London: Verso, 2006), where the fall is given as 40.9%; he restates it as over 40% in "Competition and Class: A Reply to Foster and McNally," *Monthly Review* 51, no. 7 (December 1999). Brenner attributes the fall

Then the signal crisis appeared: the American architecture's monetary half died first, on August 15, 1971, when the dollar left gold, and the order came to depend increasingly on demand for dollar-denominated financial claims. I argue that it would eventually fail through that dependence. Dollar-priced oil and the US-Saudi financial arrangements of 1974 helped recycle oil surpluses into dollar assets, including Treasuries, reinforcing the dollar after the productive base beneath it had begun losing its earlier advantage.[117]

The first response was to cut the wage, and the route chosen was abroad. Offshoring did two things to the American labor-hour at once: it bought labor-power in the periphery for a fraction of the core's price, and it shipped the cheapened goods back into the core's wage basket, so that a flat wage bought the same bundle while the labor time inside the bundle fell and the owner kept the difference. Offshoring supported profitability by reducing production costs and the cost of goods wages bought, alongside other influences on the rate of profit. Manufacturing employment fell from roughly 19 million in 1979 to roughly 12 million in 2025,[118] and the stagnation of the wage was masked for a generation by the price of the goods the wage bought. The other side of the same route was China's opening, and it is the case the challengers' century ended on. The periphery's wages rose, and rebuilding the old core's factories would take more than moving orders again. Further relocations could still raise profits, but they also developed producers whose capacity and bargaining power the incumbent no longer controlled.

The second response was the one every earlier center had made. Capital stopped going through production. This time the turn went further than lending abroad. In November 1982 the Securities and Exchange Commission adopted a rule giving a company safe harbor from manipulation charges when it bought its own shares on the open market.[119] The firm that makes things could now be run to raise the price of its own paper. The Genoese lent to a crown and the City lent to foreign railroads, and in both cases the money left production and went elsewhere. Here the money stays inside the producing firm and feeds on it. That

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to competition and overcapacity and rejects the explanation from a rising organic composition that this book uses.

[117] U.S. Department of State. "United States–Saudi Arabian Cooperation." Memorandum, June 6, 1974. Foreign Relations of the United States, 1969–1976, vol. E–9, part 2, document 111. https://history.state.gov/historicaldocuments/frus1969-76ve09p2/d111 On the contemporary recycling problem, see the Department of State's telegram to the Embassy in Iran, July 15, 1974, FRUS, vol. XXVII, document 66, https://history.state.gov/historicaldocuments/frus1969-76v27/d66.

[118] Bureau of Labor Statistics, Current Employment Statistics, manufacturing employment, 1979 and 2025, https://fred.stlouisfed.org/series/MANEMP. On the same route read as a transfer of value from the periphery, after Emmanuel and Amin: Lauesen, The Long Transition Towards Socialism and the End of Capitalism (2024), 17–19 and 23–24.

[119] William Lazonick, "Profits Without Prosperity," *Harvard Business Review*, September 2014, https://hbr.org/2014/09/profits-without-prosperity.

is why I describe the Long Liquidation as an infection of the allocator: the organ that should decide what to build was rewritten to serve the claim.

Each crisis that followed was met with a rescue larger than the last, and none was allowed to destroy the claims that caused it.

The 2008 collapse developed inside the financial system. The arrangements that expanded credit also transmitted losses when borrowers and lenders could no longer meet their obligations. The restrictions on affiliations between commercial banks and securities firms were repealed in 1999, and much over-the-counter derivatives trading was excluded from federal derivatives regulation in 2000.[120] Financial profits rose from about 15% of corporate profits in 1980 to more than 40% by 2007.[121] The financial sector decoupled from the production it nominally served.

The rescue combined the Troubled Asset Relief Program, which supported financial institutions, with the Fed's purchases of securities through quantitative easing.[122] It arrested the financial collapse and preserved the institutions and claims at the center of the system. Later reforms made banks more resilient.[123] They did not reverse the economy's dependence on expanding financial claims or rebuild the industrial base that had moved abroad. That distinction separates a successful rescue of finance from the wider renewal I argue it failed to secure.

The expansion after the Soviet collapse is essential to what failed in 2008. Capital gained access to productive capacity and labor across an enlarged world market, while the American-led financial system accumulated claims on that production. The crisis arose within the order that had benefited from the defeat of its principal rival. The withdrawal of a socialist competitor cannot explain away a breakdown generated by that order's own expansion.

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[120] Federal Reserve History. "Financial Services Modernization Act of 1999 (Gramm-Leach-Bliley)." https://www.federalreservehistory.org/essays/gramm-leach-bliley-act; Commodity Futures Modernization Act of 2000, enacted in Public Law 106-554, appendix E.

[121] Krippner, Capitalizing on Crisis (2011), on the financial share of corporate profits from BEA data, https://www.hup.harvard.edu/catalog.php?isbn=9780674066199.

[122] Federal Reserve, H.4.1, total assets series WALCL, https://fred.stlouisfed.org/series/WALCL, for the balance-sheet expansion following the 2008 crisis and the later pandemic intervention. The weekly series distinguishes the 2007 starting position from the post-purchase levels in 2015 and 2022.

[123] Board of Governors of the Federal Reserve System. Financial Stability Report. May 2020. Overview. https://www.federalreserve.gov/publications/2020-may-financial-stability-report-overview.htm.

The World Bank's 2020 development report identifies 2008 as the break after which the expansion of global production chains stalled and trade grew more slowly.[124] It still argues that cooperation and reform could renew their benefits. My claim goes further: 2008 marks the turn toward preserving accumulated claims through interventions that increasingly obstruct the next expansion. The worldwide reach achieved by the 2000s makes a retreat from it historically different from the exclusion practiced while that reach was growing.

The contraction argued here concerns the capacity to keep production, exchange and the provision of life working across that enlarged system. Factories can still open and total output can still rise while the connections and public capacities on which further development depends deteriorate. The case has to show that deterioration and how the attempted remedies reinforce it. A slower trade series alone cannot establish the terminal conclusion.

COVID-19 struck from outside the financial system, through a public-health emergency that interrupted work and spending. It reached an economy with vulnerabilities of its own. Business revenues fell while debt payments remained due, and the need for cash spread stress through financial markets. The Fed's May 2020 stability report found that finance amplified the shock even though reforms after 2008 had made banks more resilient.[125] The origin of the crisis and the mechanisms that enlarged it were different.

The response reached beyond financial markets to keep businesses operating and households able to pay their bills. Its programs distributed protection differently, and their consequences outlasted the emergency.

In March 2020 the Federal Reserve returned its policy rate to almost zero and resumed large purchases of Treasury and mortgage-backed securities.[126] Congress authorized two rounds of direct household payments under Trump in 2020 and a third under Biden in 2021.[127] Expanded unemployment benefits supported people whose wages had stopped.[128] Together, these measures sustained spending when private employment could not.

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[124] World Bank. World Development Report 2020: Trading for Development in the Age of Global Value Chains. Washington, DC: World Bank, 2020. https://www.worldbank.org/en/publication/wdr2020. Overview and key messages. The report also sets out policies for renewing development through trade.

[125] Board of Governors of the Federal Reserve System, Financial Stability Report, May 2020, Overview, https://www.federalreserve.gov/publications/2020-may-financial-stability-report-overview.htm; Bank for International Settlements, Annual Economic Report 2020, chapter II, "A monetary lifeline: central banks' crisis response," https://www.bis.org/publications/aer-2020/monetary-lifeline-central-banks-crisis-response.

[126] Board of Governors of the Federal Reserve System. FOMC statement. December 16, 2015. https://www.federalreserve.gov/newsevents/pressreleases/monetary20151216a.htm. Board of Governors of the Federal Reserve System. FOMC statement. March 15, 2020. https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm.

Business relief followed a different route. Launched in April 2020, the Paycheck Protection Program (PPP) offered loans that could be forgiven if firms met its conditions. David Autor and his coauthors estimated that PPP preserved employment but that roughly three quarters of its benefits accrued to the highest-income fifth of households.[129] Supporting payroll through firms also supported owners, creditors and suppliers.

Housing relief often deferred the conflict over payment. Mortgage forbearance let eligible borrowers pause or reduce payments, with repayment arrangements to follow.[130] Eviction moratoria protected qualifying tenants against removal for nonpayment, while rent generally remained owed. The suspension had preserved the home without settling who should bear the lost income. For tenants organizing together, that unresolved question became a demand for rent cancellation and lasting protection, extending a movement that already existed before COVID.[131]

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[127] Internal Revenue Service. "SOI Tax Stats: Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Statistics." Accessed October 13, 2026. https://www.irs.gov/statistics/soi-tax-stats-coronavirus-aid-relief-and-economic-security-act-cares-act-statistics. Internal Revenue Service. "2020 Recovery Rebate Credit: Topic F, Finding the First and Second Economic Impact Payment Amounts to Calculate the 2020 Recovery Rebate Credit." Accessed October 13, 2026. https://www.irs.gov/newsroom/2020-recovery-rebate-credit-topic-f-finding-the-first-and-second-economic-impact-payment-amounts-to-calculate-the-2020-recovery-rebate-credit. Eligible adult maxima were $1,200 under the March 2020 law, $600 under the December 2020 law and $1,400 under the March 2021 law, subject to income limits and with separate dependent supplements.

[128] Autor, David, et al. "The $800 Billion Paycheck Protection Program: Where Did the Money Go and Why Did It Go There?" Journal of Economic Perspectives 36, no. 2 (2022): 55–80. January working paper: https://economics.mit.edu/sites/default/files/publications/w29669.pdf. The paper compares PPP with expanded unemployment insurance and direct household payments.

[129] Autor, David, et al. "The $800 Billion Paycheck Protection Program: Where Did the Money Go and Why Did It Go There?" Journal of Economic Perspectives 36, no. 2 (2022): 55–80. January working paper: https://economics.mit.edu/sites/default/files/publications/w29669.pdf. The estimated distribution of benefits is separate from the question of fraud.

[130] Consumer Financial Protection Bureau. "What Is Mortgage Forbearance?" Accessed October 13, 2026. https://www.consumerfinance.gov/ask-cfpb/what-is-mortgage-forbearance-en-289/.

[131] Los Angeles Tenants Union. "LATU Rejects Legislative Compromises, Affirms Dual Power." November 18, 2020. https://latenantsunion.medium.com/latu-rejects-legislative-compromises-affirms-dual-power-7c93cd07bb30. Los Angeles Tenants Union. "Affordable Housing Is a Scam." Accessed October 13, 2026. https://latenantsunion.medium.com/affordable-housing-is-a-scam-9a4c43ba8149.

Inflation was already accelerating before Russia invaded Ukraine. U.S. consumer prices in January 2022 stood 7.5% above a year earlier.[132] Fiscal support had helped sustain demand while spending shifted toward goods whose supply was disrupted. Production and transport bottlenecks, alongside commodity-price increases, drove prices upward.[133] The invasion in February added a shock to energy, fertilizer and food.[134] In March the Fed began raising rates,[135] making new borrowing and refinancing more expensive. Households and firms entered the next crisis carrying the prices and obligations left by the previous one. Lower inflation later meant prices rising more slowly, leaving the earlier increase in the cost of living to be met from current incomes.

The shortages exposed the distance between a financial rescue and the restoration of supplies. Factory interruptions, disrupted transport and sudden shifts in demand could prevent goods from arriving even where productive capacity existed.[136] Credit could keep a firm solvent while its inputs remained unavailable. A larger financial backstop could not by itself remove those bottlenecks.

That is how an external shock can deepen an endogenous crisis. Protecting incomes and preventing a financial collapse can be necessary, while the distribution of that support and the failure to repair supply leave further pressures behind. The treatment did damage of its own, and the damage spread through the connected system. The pandemic intensified the contradiction between financial claims and the conditions of production without having originated in those claims. The AI build-out is the latest attempt to turn another expansion of financial claims into a productive base that can sustain them.

The financial sequence ran alongside a breakdown in the rules governing force. To trace that other strand, the account returns to the interventions that followed the Soviet collapse.

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[132] US Bureau of Labor Statistics. “Consumer Price Index: January 2022.” February 10, 2022. https://www.bls.gov/news.release/archives/cpi_02102022.htm.

[133] Bernanke, Ben S., and Olivier Blanchard. “What Caused the U.S. Pandemic-Era Inflation?” Brookings, June 13, 2023. https://www.brookings.edu/articles/what-caused-the-u-s-pandemic-era-inflation/. Powell, Jerome H. “Review and Outlook.” Speech, August 23, 2024. Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm.

[134] World Bank. “Food and Energy Price Shocks from Ukraine War Could Last for Years.” Commodity Markets Outlook release, April 26, 2022. https://www.worldbank.org/en/news/press-release/2022/04/26/food-and-energy-price-shocks-from-ukraine-war.

[135] Board of Governors of the Federal Reserve System. FOMC statement. March 16, 2022. https://www.federalreserve.gov/newsevents/pressreleases/monetary20220316a.htm.

[136] Powell, Jerome H. “Review and Outlook.” Speech, August 23, 2024. Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm. See “The Rise and Fall of Inflation.”

Kosovo in 1999 bypassed the Security Council and was ruled illegal but legitimate by the commission that reviewed it. Iraq in 2003 bypassed it again and was called illegal by the Secretary-General of the UN. Libya in 2011 took the Council's authorization for civilian protection and spent it on a full-blown regime change, which helped close the route to a comparable authorization against Assad in the Syrian civil war, the chemical-weapons resolution of 2013 and the cross-border relief of 2014 being the kind of thing it would sign.[137]

Moscow and Beijing learned to read every Security Council resolution as a blank check for hegemonic overreach.

Putin named the pattern at Munich in February 2007, between Iraq and Libya: an almost unconstrained hyper-use of force, a world in which no one feels safe because no one can feel that international law is a stone wall that will protect them, and the consequence he drew is that dominance of hegemonic force outside of a rule of law encourages states to acquire weapons of mass destruction.[138] This is "domination without hegemony," Arrighi's phrase, after Guha, for a power that can still coerce but can no longer lead: when the credibility of rule as service to the ruled wanes, in his sentence, "hegemony deflates into sheer domination."[139] International law is the juridical form of consent-based leadership, and a hegemon dismantles it only when it has stopped paying.

The Balkan wars of the 1990s were the form's first test after the Soviet collapse. The wars and alliance commitments that followed, from Iraq in 2003 to Iran in 2026, helped make the present war. In April 2008 NATO promised eventual membership to Ukraine and Georgia.[140] Four months later Moscow fought and won a five-day war in Georgia, which I read as its first armed answer to that promise.

The wars of this period form a sequence. Iraq in 2003 was the unipolar power acting alone and sure of itself, and it broke the regional balance that had contained Iran. With Baghdad gone, Tehran's reach ran to the Mediterranean, and Syria became the ground on which every other power moved to cut that reach or keep it. Syria from 2011 was something else:

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[137] United Nations Security Council. Resolutions 1973 (March 17, 2011), 2118 (September 27, 2013), 2165 (July 14, 2014), and 2249 (November 20, 2015). For the Council's account of Resolution 2249's call for "all necessary measures" against ISIL without a Chapter VII reference, see Repertoire of the Practice of the Security Council, 2014–2015, part VII. https://main.un.org/securitycouncil/sites/default/files/part_vii_2014-2015.pdf

[138] Putin, Vladimir. "Speech at the Munich Conference on Security Policy." February 10, 2007. Transcript reproduced by GlobalSecurity.org. https://www.globalsecurity.org/military/library/report/2007/putin-munich_070210.htm.

[139] Arrighi, Adam Smith in Beijing, 150; Guha, Dominance without Hegemony (1997).

[140] NATO. "Bucharest Summit Declaration." April 3, 2008, paragraph 23. https://www.nato.int/en/about-us/official-texts-and-resources/official-texts/2008/04/03/bucharest-summit-declaration

a war in which every great power fought through someone else's army, as they had in Spain in 1936. I date the opening of the new thirty years war there. Ukraine in 2022 widened a war already under way.

Syria was the opening, and history has a precedent for openings that were taken for rehearsals. From 1936 to 1939 the powers that would fight the Second World War fought it first in Spain by proxy: the Condor Legion tested the air weapon at Guernica, Moscow sent advisers and tanks to learn from the fighting before the next conflict, Rome sent divisions, the International Brigades came from everywhere, and the Non-Intervention Committee in London performed the League of Nations death a second time. Madrid fell on March 28, 1939 and the general war began five months later.[141]

From 2011 to 2024 the powers now at war in the Gulf fought in Syria by proxy: Moscow's intervention of September 2015, Tehran building the proxy corridor to the Mediterranean through militias it trained and armed, Washington intervening in the east through the Kurds and the oil fields, Tel Aviv striking Assad and the Iranian corridor for a decade, the chemical weapon red line of 2013 not enforced.[142] I read that retreat as a precedent the later belligerents could all observe.

The Ukrainian Maidan of February 2014 and the seizure of Crimea a month after turned the promise of 2008 into an armed frontier, and the Minsk agreements that followed were a settlement form both sides signed and neither guaranteed or collateralized.[143]

February 2022 widened the crucible that Syria had opened. The "no limits" partnership declaration of Russia and China of February 4 preceded the invasion by 20 days,[144] and the sanctions on Russia that answered the invasion weaponized the global interconnected financial layer itself, freezing a sovereign's reserves,[145] which is the day a yuan bridge, a

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[141] Preston, Paul. The Spanish Civil War: Reaction, Revolution and Revenge. London: Harper Perennial, 2006.

[142] Congressional Research Service. Syria: Transition and U.S. Policy. RL33487, February 26, 2026. https://www.everycrsreport.com/reports/RL33487.html See the civil-war chronology and regional actors. The United States subsequently intervened against Islamic State; the 2013 red line concerns the threatened response to chemical weapons.

[143] Organization for Security and Co-operation in Europe. "Package of Measures for the Implementation of the Minsk Agreements." February 12, 2015. https://www.osce.org/cio/140156

[144] Russian Federation and People's Republic of China. "Joint Statement on International Relations Entering a New Era and Global Sustainable Development." February 4, 2022. English text reproduced by the USC U.S.–China Institute. https://china.usc.edu/node/21199.

[145] U.S. Department of the Treasury. "Treasury Prohibits Transactions with Central Bank of Russia and Imposes Sanctions on Key Sources of Russia's Wealth." February 28, 2022. https://home.treasury.gov/news/press-releases/jy0612.

route for settling transactions in yuan and financing them in yuan where credit is extended, became a necessity for every state that could imagine being next in line.

October 7 is the next hinge. Reporting published in September 2026 has the Palestinian resistance leader Yahya Sinwar spending 2023 negotiating a long truce through intermediaries, warning twice that an earthquake was coming if nothing moved, and the warning reaching the Israeli prime minister about ten days before the attack.[146] After the attack, on the same reporting, Hamas offered through the emir of Qatar to release at once the civilian hostages over 50 and under 18, and was told that there was no one to talk to and that Washington would wait three days.

War crimes perpetrated in return on Gaza brought the prior settlement's own courts into the record: the International Court of Justice's provisional measures in January 2024[147] and the International Criminal Court's warrants that November were answered with sanctions on the court's officers.[148]

The Houthis closed the Red Sea from November 2023 in response, Israel and Iran exchanged strikes in April and October 2024. Damascus fell that December, and Israel, the United States and Iran fought 12 days in June 2025 during active negotiations with Iran. The war reached the strait of Hormuz 14 months after Damascus, as the attack on Iran in February 2026 dispensed again with the need of any pretext and again struck during negotiations, this time killing the head of state and religious leader of Iran.

The difference from 1939 is that the principal powers now hold weapons that could destroy the world they are fighting to organize. Deterrence pushes the contest away from a direct war between them, without guaranteeing that it stays there.

American hegemony expanded to its limit in 1991, the moment of arrival. The capital system made its last and largest global expansion in the same years: the "great doubling" of the world labor force when China, India, and the former Soviet bloc entered the world

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[146] Shlomi Eldar and Ruth Yuval, "Revealed: Netanyahu Received an Explicit Warning Days Before Oct. 7. He Didn't Brief Israel's Security Chiefs," Haaretz, September 8, 2026, https://www.haaretz.com/israel-news/israel-security/2026-09-08/ty-article-magazine/.highlight/netanyahu-got-an-explicit-warning-before-oct-7-he-didnt-brief-security-chiefs/000001a0-7a3b-d7d5-a9fc-7eff3d0f0000, from their book Hostages: 843 Days of Abandonment (2026); Times of Israel, September 8, https://jewishchronicle.timesofisrael.com/days-before-oct-7-uae-leader-warned-netanyahu-hamas-was-planning-war-but-pm-did-nothing-with-the-info-report/.

[147] International Court of Justice. South Africa v. Israel, Order on Provisional Measures, January 26, 2024. https://www.icj-cij.org/case/192

[148] International Criminal Court. Arrest warrant for Yoav Gallant, November 21, 2024. https://www.icc-cpi.int/defendant/gallant; U.S. President. "Imposing Sanctions on the International Criminal Court." Executive order, February 6, 2025. https://www.whitehouse.gov/presidential-actions/2025/02/imposing-sanctions-on-the-international-criminal-court/

market in the 1990s,[149] the route abroad the falling rate took, the Chinese wall battered down in fact by the accessions of the 2000s. It was the second time the incumbent's cycle found room for productive forces the order had not yet exhausted, and the room it opened is the room the successor now holds.

The reserve army Marx described in the chapter on the general law of accumulation was constituted at the scale of the planet. Western centrality expanded for the last time with the US system, to the Baltic and the Black Sea and the Gulf, while it also contracted underneath as the economic base returned to Asia. By February 2026, the incumbent was reaching for final military victory from an economy increasingly organized around financial claims on production elsewhere.[150]

X. Every Recovery

The reach

The incumbent experiences its position as the natural order and not as the product of a lead it once held in production and military science, and it expects the position to reproduce itself without the effort that produced it. Nostalgia for the arrival permeates as a decadent dreaming takes hold in reality. Olivares persisted in the ambition for universal monarchy after Charles V and fought to hold the Netherlands as the emperor had held them. Britain went into Suez in 1956 to show the world the power that had held the canal since 1882.

The United States went into Iraq in 2003 and to the strait in 2026 to be the power of 1991. The incumbent shows the world that the enforcement function is intact, on the assumption that the demonstration will be believed as it was the last time, and every incumbent has made the reach at the point where the assumption had stopped being true. When the strait could not be held, the Treasury secretary, Scott Bessent, said at the G20 finance ministers' meeting in Asheville, on September 1, 2026, that pipeline routes would make the strait a worthless piece of water within two years.[151]

The unipolar moment was war without war. Slavoj Žižek's image for the era's products was coffee without caffeine and beer without alcohol, the thing without its cost, and the

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[149] Freeman, "The Great Doubling" (2007); Marx, Capital, vol. 1, ch. 25, and vol. 3, ch. 15.

[150] Freeman, "The Great Doubling" (2007); Marx, Capital, vol. 1, ch. 25, and vol. 3, ch. 15.

[151] Bessent to Kudlow at the G20 finance ministers' meeting, Asheville, September 1, 2026 (Bloomberg, "Bessent Says Pipelines Will Render Hormuz 'Worthless' in Two Years," September 1, 2026, https://www.bloomberg.com/news/newsletters/2026-09-01/bessent-says-pipelines-will-render-hormuz-worthless-in-two-years): "In two years, the Strait of Hormuz will be like a worthless piece of water." Bloomberg, "Bessent Says Hormuz Will Soon Be Worthless as Oil Bypasses It," September 1, 2026. https://news.bloomberglaw.com/banking-law/bessent-says-hormuz-will-soon-be-worthless-as-oil-bypasses-it

incumbent's wars were sold the same way. The draft had ended in 1973. Desert Storm in 1991 was paid for mostly by the allies. Iraq in 2003 was fought on borrowed money beside a tax cut, and Libya in 2011 from the air. There was no rationing and no war tax, nothing like the overseas portfolio Britain sold to pay for the war of 1914. The oil shock of 1990 and 1991 cut real incomes and confidence, and the Federal Reserve weighed it, but it passed within months as the price fell and the fighting ended. The difference now is scale and persistence: the Iran war's costs have stayed at the pump, in the mortgage rate and in the Federal Reserve's decisions since its first month, and they are not receding.[152]

The second reach is the same nostalgia in money. The incumbent that can no longer earn a return in production tries to earn it through lending: the Genoese fairs, the Amsterdam exchange, the City of London, and now the AI build-out, the belle époque's second wind and a major speculative expansion.

The binder and the container

A leading power rests on a productive economy and institutions that organize others around it. Each order explains and justifies that authority in the language its age recognizes: religion in 1507, religious-dynastic legitimacy in 1648, absolutist-dynastic preservation in 1815, post-monarchic development ideologies in 1945.

That language is the order's binder, the reason others accept its leadership.

These loyalties helped states obtain the cooperation that trade, taxation and war required on a growing scale. Religious allegiance could reach beyond kinship, dynastic authority organized territories under a crown, national allegiance supported mass mobilization, and competing development ideologies brought states into international blocs. The successor needed institutions able to turn those commitments into sustained economic and military cooperation.

Each outlasted its general war only by absorbing the next one's methods, which is how a Holy Alliance of three different Christian confessions came to run mass conscription. The containers grew: a money center fused to an empire, a trading system with a state built to protect it, an industrial empire denominated in sterling, a continental state with the corporation and the dollar, and each grew by drawing a larger share of society into exploitation and the wage relation. The fourth transition's question is whether the next container is a formation that does not need and in fact must jettison this relation to continue to reproduce society. Two processes run through these transitions and they overlap without coinciding: a change of hegemon, which asks who organizes the world

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[152] Slavoj Žižek, Welcome to the Desert of the Real (London: Verso, 2002); on the 1991 war's financing by the allies, Ronald O'Rourke, Persian Gulf War: Defense-Policy Implications for Congress, Congressional Research Service, May 15, 1991; Federal Reserve, materials for the Federal Open Market Committee meeting of February 6, 1991, on the oil shock's effect on real incomes, confidence and spending, https://www.federalreserve.gov/monetarypolicy/files/FOMC19910206meeting.pdf.

economy, and a change of mode, which asks how production, labor and the surplus are organized.

In the mechanism proposed here, capital pours into production and trade, competition generalizes advantages, and the organic composition of capital, the weight of machinery relative to labor in the capital advanced, rises. This puts pressure on returns from further investment in the incumbent's economic base. I connect this Marxian mechanism to the turn toward finance that Arrighi calls a signal crisis.[153]

Capital then withdraws into finance, a financial expansion begins, and the withdrawn capital lends to whatever is still expanding. In the transitions traced here, that search for returns helped finance productive capacity outside the incumbent's economy. The lender could continue collecting income while the borrower acquired more of the industrial and fiscal strength on which leadership would eventually rest.

The present transition initially followed that pattern: offshoring helped build China's productive base after 1978. The difference developed in how much of China's surplus returned to finance the United States. The successor also recycled its surplus into the incumbent's debt, and the recycling slowed after 2008. China's reported holdings of Treasury securities peaked at $1.317 trillion in November 2013 and have halved since,[154] a shrinking stock that does not mean it stopped all purchases or all financing of the United States.

Genoa financed Spain, Amsterdam financed London, and London financed New York. American demand and international investment helped support Shenzhen's expansion. The American AI boom now channels investment back into American technology companies and their suppliers. Each transition moved the center, each was financed, directly or through the long way of war, by the old center's lending, and each was settled by a general war. Run backward, the pattern holds for the hegemon and not yet for the mode: each transition renewed capitalism around the successor, and that is the comparison the present has to beat. Three connected features shape the present transition. China became both a major creditor and a strategic rival of the United States. Its declining Treasury holdings reduce one source of financing for the incumbent. Nuclear deterrence makes a general war

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[153] Marx, Karl. Capital: A Critique of Political Economy. Vol. 1. 1867. Translated by Ben Fowkes. London: Penguin, 1976. Free online text: https://www.marxists.org/archive/marx/works/1867-c1/index.htm Chapter 25, on the organic composition of capital; Arrighi, Giovanni. The Long Twentieth Century: Money, Power, and the Origins of Our Times. 2nd ed., with a new Postscript. London: Verso, 2010. First published 1994. https://www.versobooks.com/products/1483-the-long-twentieth-century Arrighi, pp. 220–221 and 232–233. The connection to Marx's organic-composition mechanism is the argument made here.

[154] Treasury International Capital, Major Foreign Holders of Treasury Securities: peak $1.317 trillion, November 2013, https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/mfhhis01.html; $659 billion, May 2026. Holdings custodied in Belgium and Luxembourg are partly China's.

between the leading powers far more dangerous. The struggle for succession consequently runs through wars in other states and through attempts to exhaust the economic systems that support each rival.

What decides the war

The plans that opened this history's general wars assumed the opening blows would decide them; each war was decided by the second phase, the rebuilding of forces after an opening defeat. The examples run from the coast that regenerated its defenders faster than blows came down the Spanish Road, Spain's overland supply route to the Netherlands, through the *guerrilla* and France's improvised Army of the Loire, defeated in 1870, to the later industrial states that organized the whole economy to replace armies and weapons lost in battle. What decides a general war is the formation that can regenerate, and regeneration capability is built before the war, not a will summoned during it. It holds only while the formation can keep its population and its lines supplied. Germany's armies were being beaten in the field in 1918, and the society behind them came apart before the front reached German soil.[155]

The incumbent's opening blow in Iran was Barbarossa, Germany's 1941 invasion of the Soviet Union, and not Sedan, the 1870 battle after which Bismarck could still offer terms. The campaign opened on February 28, 2026 was declared won inside its first fortnight, as the German chief of staff Franz Halder prematurely declared his.[156] The second phase formed, no terms existed on either side, and the regeneration the blow summoned is the adversary's launcher count and shell line.

The old order took the revolution's method twice, and twice the outcome was the levée against the levée. The first time was 1813, when the Prussian Landwehr turned the French nation in arms against the French, and won. The second was Nazi Germany: Goebbels' call for total war in February 1943 and the Volkssturm of October 1944 mobilized the whole nation without freeing anyone in it, the reaction's levée in its purest form, aimed at the workers' state. In 1945 it lost, at something near industrial parity, to a levée built into a planned economy, one that moved its factories east of the Urals and put its whole output behind the front. That is why Barbarossa's first fortnight decided nothing. Vietnam was the levée beating the levée again, a people mobilized against a draft army, with far less parity.

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[155] Lenin in September 1917 on the "miracles" of 1792 to 1793: they came from the material, economic conditions of a superior mode of production and free peasant land tenure, which regenerated and renovated France's economic foundation (Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 12).

[156] Associated Press. Coverage of Trump's Kentucky remarks declaring the Iran war won, March 11, 2026. https://apnews.com/article/357bea33f911695c9b9cbf1d4f5c443e ; U.S. Department of the Army. The German Campaign in Russia—Planning and Operations (1940–42). Department of the Army Pamphlet 20-261a, 1955, 45. https://www.heilungshan.com/military/documents/DA20-261a.html The comparison between the campaigns is the author's.

The incumbent fought it with some two million men drafted and an economy hundreds of times the size of North Vietnam's, and it lost. That is the parity decoupling: the outcome of war separating from the balance of output and arms that had decided the earlier crucibles. It has grown more extreme in the 2026 war, fought on several economic fronts at once, sanctions, export licenses, frozen reserves and closed chokepoints, beside the shooting.[157]

One more thing is being tested at the strait: the Western military divergence was the productive divergence in arms. It opened with the carrack and the fiscal-military state, widened with the factory, peaked with the Maxim gun, and began to close when the mode could be bought or copied. Adwa, where Ethiopia defeated Italy in 1896, and Tsushima, where Japan sank Russia's fleet in 1905, were the warnings. It has been reversed decisively twice: at Stalingrad, where the most advanced army of the capitalist West was destroyed by a formation that was not capitalist, and in Vietnam's wars against France and then the United States, won by the "people's war" in 1954 and 1975. The unipolar decade is the exception, Desert Storm and Baghdad in three weeks, and even its insurgencies relearned Vietnam's lesson, winning by outlasting without the regular army Hanoi had regenerated. Each reversal went to a formation whose productive base could regenerate, and a third reversal is in progress at the strait. Ukraine and Iran are the present cases.

Engels put the rule in the second part of *Anti-Dühring* (1878): the army's organization depends on production.

The seventeen ways out

Set the three transitions side by side and the ways out can be counted. I find seventeen.

Claims were destroyed in three ways. Sovereigns defaulted and forced their creditors to take less. Banks failed in panics and took their depositors' claims with them. And after 1945 inflation, with savers held captive, wore the war debts down.

Plant was destroyed or cheapened in three ways. Depressions scrapped it or sold it for cents to a new owner. The American railroads that failed in 1873 and 1893 carried freight for another century under other names. Wars burned the rival's. And mobilization put idle factories and idle people to work on the state's account.

Labor was cheapened in three ways. Unemployment cut the wage. Cheap grain, and later cheap imported goods, lowered what the wage had to buy. And new people were brought under the wage: the enclosed peasant, the migrant, and last the Chinese countryside.

The system grew outward in two ways. It took new territory and new markets. And each time a larger state stood ready to host the next round and police it.

It renewed its technique in two ways. A new leading industry cheapened inputs and hired by the million. Cotton, then rail and steel, then electricity and the car each did both. And

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[157] Joseph Goebbels, speech at the Berlin Sportpalast, February 18, 1943; the decree establishing the Volkssturm, September 25, 1944, announced October 18; Selective Service System, induction statistics, 1964–73.

each center rose on a cheaper source of energy than the last, though for the Dutch case historians dispute how much the fuel explains.[158]

And it repaired its politics in four ways. Reform was conceded under threat. A stronger balance sheet rescued a weaker one. A victor wrote a settlement of money and law. And each order found a new language in which to ask for obedience.

Every one of these needed something larger than what came before: a larger host, a larger mobilization, a larger destruction, a larger outside. That is the launch this history has traced. Arms rose from the cannon at Hormuz to the Maxim gun at Omdurman. War rose from thirty years in the German borderlands to the same exhaustion in four years, and then to the destruction of the cores themselves. Accumulation rose from money lent to a crown to a corporation that held production, wage and market inside one circuit. And the wage itself spread from the enclosed village to the whole world.

The ladder has a top. Destruction reached it in 1945. The outside reached it when the last great reserve of labor came under the wage. The host reached it in a successor that directs capital and may not court it. With no higher rung, each arc falls back toward its start: war to long attrition in the borderlands, the arms gap to the strait where it opened, and money to the service of an empire that cannot pay. The three handovers are the record. That the ladder has a top is my inference, and the chapters on the present test it one way out at a time.

What is ending now appears to be that entire arc: the 500 years of Western dominance that opened in the Americas in 1492 and at Hormuz in 1507, ending in the same window as the mode of production it birthed, carried, and expanded and at the end of the current hegemon's tenure. This is the coincidence this work is built to see: the geographic, military and economic reversals landing together, the productive center of gravity returning to Asia as capitalism and "The West" itself reaches hard barriers.

PART TWO: THE WASTING

XI. The Diagnosis

The preceding chapters followed a disease through three hosts. Each time the host died and the circuit moved to a larger body. This part examines the fourth host, which has nowhere to send it.

The course runs in order. Between 1933 and 1971 the condition was suppressed, under threat, and never cured. Between 1971 and 1982 it returned and infected the organs that allocate. What followed is the wasting: for half a century, whatever has been fed to the body has gone to the claims, and muscle has been burned to make up the difference. The first

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[158] J. W. de Zeeuw, "Peat and the Dutch Golden Age: The Historical Meaning of Energy-Attainability," *A.A.G. Bijdragen* 21 (1978); Richard W. Unger, "Energy Sources for the Dutch Golden Age: Peat, Wind, and Coal," *Research in Economic History* 9 (1984): 221-53.

decades hid it. Goods were cheap, the index rose, and the patient looked well. A wasting body weighs more on the scale when the tumor grows, and the instruments that weigh this one, output and the share index, count the claims as health.

Wasting has a feature that separates it from hunger. Feeding does not reverse it. Every rescue since 2008 has been a feeding, and every one has come out as higher asset prices and a thinner body.

The language of the clinic is used here because the two conditions have a precise structure, and the structure is the argument.

A retrovirus does its damage by an unusual route. It copies its own instructions into the genetic material of the cells it enters, and those cells then produce the virus as part of their normal work. In the best-known case the cells it enters are the ones that direct the body's defenses.[159] The organ that should detect the intruder and command the response is the one that has been rewritten, and for years the patient can feel well.

That is the sense in which the years from 1971 to 1982 were an infection. The turn to money from money entered the organs that decide where resources go: the corporate board, the bank, the pension fund, the central bank and the Treasury. It wrote its rule into their ordinary procedures, in the pay of executives, the mandate of the fund manager, the accounting of the bank, and the response of the central bank to a fall in asset prices. After that no conspiracy was needed. Each organ, doing its normal work by its own rules, produced claims in place of capacity.

Wasting is the second condition, and medicine defines it with care. Cachexia is an ongoing loss of muscle that feeding cannot fully reverse and that leads to progressive loss of function. Its cause is a change in the body's own chemistry: more is broken down than is built, whatever is eaten.[160] A starving man recovers when he is fed. A wasting patient goes on losing muscle at a full table, because the fault lies in what the body does with the food.

The next nine chapters turn on that distinction. If the American economy were short of money, money would cure it, and there has been no shortage. Public debt has passed a year's output, the central bank's balance sheet grew tenfold in fourteen years, and corporate profits are at records. The body is fed. What it does with the feeding is the disease. A dollar of rescue enters at the top, through the banks and the bond market, and becomes a higher price for existing claims before it reaches a wage or a machine. Meanwhile the firm makes up its return by consuming what took decades to build: the research department, the spare capacity, the trained workforce, the maintained grid. That is muscle burned for fuel.

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[159] U.S. National Institutes of Health, HIVinfo, "The HIV Life Cycle," fact sheet.

[160] Kenneth Fearon et al., "Definition and Classification of Cancer Cachexia: An International Consensus," *The Lancet Oncology* 12, no. 5 (2011): 489-95, https://pubmed.ncbi.nlm.nih.gov/21296615/.

Picture petrodollar hegemony as a body. The financial system is its circulation, and the flows of capital and commodities between core and periphery are the blood, clearing through American-led markets on every pass. The dollar's reserve status is the pressure gradient that keeps the blood moving toward the core, and the Navy's enforcement at the chokepoints is the heart muscle that maintains the gradient. The dollar's use as the mediating currency in the energy trade lets the government run permanently expanding deficits and supports higher prices for American assets because the world needs places to hold its dollars. The body has run this way since the dollar was decoupled from gold in 1971 and oil-surplus recycling was reinforced through the US-Saudi accommodation of 1974.[161] Every organ below shows the same gap between the claim and the thing. A price can be moved with a sentence. A refinery, a propellant plant and a transformer cannot.

The productive base was what the blood was pumped to feed, and 40 years of offshoring hollowed it out. The financial circuits grew up around it, so that the money kept moving while less and less of it reached production. The AI capex loop, the spending on long-lived chips, buildings and power, is the largest of them, a shunt through which the heart pumps ever more blood that returns having fed little. The pulse reads strong. A heart pumping into a shunt works harder every year to keep the flow up, and the wasting takes heart muscle with the rest. Such a heart fails when it is asked for one more exertion. The patient ordered that exertion himself, at the strait.

In the late course of the illness the nervous system is affected too, and judgment goes. The patient misreads his own condition, forgets what the last exertion cost him, and trusts whoever flatters him. An infection of this kind seldom kills by itself. The patient dies of an ordinary shock that a sound body would have survived. A patient in that state does what a sound one would refuse. He walks into the Heart Attack Grill to prove that he is well, and each treatment that follows injures another organ. The chapters on the mind, the strait and the sovereign take those three stages in turn.

The patient had survived earlier crises. The shocks of the 1970s were followed by a recovery of prices and the dollar, while manufacturing moved abroad and gains in output per worker increasingly failed to reach the median worker's pay. The economy kept growing, but the industrial base on which its power had rested was thinning.[162]

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[161] U.S. Department of State. "United States–Saudi Arabian Cooperation." Memorandum, June 6, 1974. Foreign Relations of the United States, 1969–1976, vol. E–9, part 2, document 111. https://history.state.gov/historicaldocuments/frus1969-76ve09p2/d111

[162] Bureau of Labor Statistics, Current Employment Statistics, real average hourly earnings of production and nonsupervisory employees in 1982 to 1984 dollars (peak February 1973, first exceeded May 2019), https://www.bls.gov/bls/cesbook_stores_correction.htm; Mishel, "Growing Inequalities, Reflecting Growing Employer Power, Have Generated a Productivity-Pay Gap Since 1979," Economic Policy Institute, September 2, 2021, Table 1 and Figures A to C, both series deflated by CPI-U-RS (net effective productivity +59.7%, median hourly compensation +15.8%, the gap 62% compensation inequality, 19% labor's share and 19% deflators; labor's share of corporate income 82.4% in 2000 and 77.3% in 2019); Mishel and Kandra, "Wages for the Top 1% Skyrocketed 160% Since 1979," EPI,

Each later crisis inherited obligations that earlier interventions had kept alive. After 2008, near-zero rates and central-bank bond purchases supported private finance. In 2020 those tools returned alongside household transfers, forgivable business loans and temporary protection against losing a home.[163] Rent and mortgage obligations often survived the pause. The subsequent inflation and rate increases[164] made preserving incomes and servicing debt harder to reconcile. The treatments prevented immediate losses while leaving a dispute over who would ultimately absorb them.

I use these terms as a model of structure and claim nothing more for them. No economy has cells. The test of the model is whether it predicts what the organs show: that each will defend a number, produce it without the thing, be spared the reckoning by public or borrowed money, and consume a capacity in doing so. If the organs show something else, the model is wrong and should be dropped. The terms also name an illness that has killed more than forty million people, and they are used here for their exactness.[165]

The chapters that follow ask the same five questions of one organ after another. What number is being defended, and what thing was it supposed to stand for? How is the number produced without the thing? What would happen if the price were allowed to find the

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December 2020, from Social Security W-2 data; Stansbury and Summers, "Productivity and Pay: Is the Link Broken?" NBER Working Paper 24165 (2017); Autor, Dube and McGrew, "The Unexpected Compression," NBER Working Paper 31010 (2023), and Dube's update through November 2025; EPI, Productivity-Pay Tracker, July 30, 2026. From 1979 to 2019 the wages of the highest-paid 1% of earners rose 160%, against 26% for the bottom 90%. The real hourly wage of production and nonsupervisory workers, four employees in five, peaked in February 1973 and was not passed again until 2019.

[163] Board of Governors of the Federal Reserve System. "Monetary Policy and Economic Developments." 2020. https://www.federalreserve.gov/publications/2020-monetary-policy.htm For the separate fiscal and housing measures: Internal Revenue Service. "SOI Tax Stats: Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Statistics." Accessed October 13, 2026. https://www.irs.gov/statistics/soi-tax-stats-coronavirus-aid-relief-and-economic-security-act-cares-act-statistics. US Government Accountability Office. Small Business Administration: COVID-19 Loans Lack Controls and Are Susceptible to Fraud. GAO-21-117T, October 1, 2020. https://www.gao.gov/products/gao-21-117t. Consumer Financial Protection Bureau. "What Is Mortgage Forbearance?" Accessed October 13, 2026. https://www.consumerfinance.gov/ask-cfpb/what-is-mortgage-forbearance-en-289/. Federal Trade Commission. "Temporary Stop of COVID-19 Evictions: What You Need to Know." Updated September 2, 2021. https://consumer.ftc.gov/consumer-alerts/2020/10/temporary-stop-covid-19-evictions-what-you-need-know. Payment deferral and eviction protection did not generally cancel the debt.

[164] US Bureau of Labor Statistics, "Consumer Price Index: January 2022"; Federal Reserve, FOMC statement, March 16, 2022.

[165] UNAIDS, "Global HIV and AIDS Statistics: Fact Sheet," 2025.

thing, who prevents it, and who is spared and who is disciplined? What public or borrowed resource is being fed in? And what capacity is being consumed? The repetition is the argument. One instance is a scandal. Eight are a metabolism.

XII. The Corporation

The general case comes first, because every other organ repeats it.

A company can do three things with a dollar of profit. It can reinvest it in plant, research and people. It can pay it to its owners as a dividend. Or it can go into the market and buy its own shares. The third raises earnings per share without any rise in earnings, because the same profit is divided among fewer shares. No product is improved and no factory is built. The number goes up, and the officers whose pay is tied to the number are paid.

The third use became the main one through a change of doctrine that became a change of law and then a change of pay.

In September 1970 Milton Friedman told the readers of the *New York Times Magazine* that a business has one social responsibility, to increase its profits.[166] In 1976 Michael Jensen and William Meckling gave the idea its theory: managers are agents, shareholders are principals, and the problem of the corporation is how to stop the agent from spending the principal's money on anything except the principal's return.[167] On that account a factory kept running at a modest profit, a laboratory with no product this year, and a payroll larger than the quarter requires are all forms of theft from the owner. The remedy was to pay the manager as an owner, in shares and options, so that he would want what the share price wanted.

The law followed. Before 1982 a company that bought its own shares in volume risked a charge of manipulating its own stock. The rule adopted that November removed the risk. A tax change in 1993 limited the deduction for executive salaries above a million dollars and exempted pay tied to performance, which in practice meant options, and the option grant became the main part of the pay of the people who decide what a firm does with its cash. In 1997 the Business Roundtable, the association of the chief executives of the largest companies, declared that the paramount duty of management and boards is to the stockholders.[168]

This does something to the person at the top. His pay rises with the price of the shares. He decides whether the firm's cash builds a plant that will earn in seven years or buys shares

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[166] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times Magazine*, September 13, 1970.

[167] Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3, no. 4 (1976): 305-60.

[168] Business Roundtable, *Statement on Corporate Governance*, September 1997.

this quarter. Only he and a few colleagues know on which days the firm is in the market. An instruction to act as the owner would has been given to someone who can move the owner's price with the owner's money. The corporation's own governing organ was rewritten, so that doing its job, as the job is now defined, produces the claim and consumes the capacity.

The result can be counted. In the ten years to 2013, 454 of the companies in the main American share index spent 51% of their profits, $3.4 trillion, buying their own shares, and paid out a further 35% in dividends.[169] In the ten years to 2023 the buybacks came to $6.8 trillion, 57% of net income.[170]

The practice has not slowed. In the twelve months to September 2025 the companies of that index spent a record $1.02 trillion on their own shares, and with dividends they returned about $1.65 trillion to shareholders in the year to that June. Apple alone has spent $755 billion on repurchases in ten years. Four companies, Apple, NVIDIA, Alphabet and Meta, made more than a fifth of all the index's repurchases in the third quarter of 2025. About one company in six in the index had cut its share count by at least 4% in a year, which lifts earnings per share by at least 4% with no rise in earnings. A federal tax of 1% on repurchases took effect in 2023, and the index's own analyst reports that it has not affected the totals.[171] A tax large enough to stop the practice would lower the price of the shares, and the state's own receipts, its pension funds and its measure of growth now rest on that price. The rate was set at one per cent for the reason the price is defended.

Two of those four, with Amazon and Microsoft, are also the companies building the data centers. The strongest objection to this chapter is that the largest repurchasers are now the largest investors, spending hundreds of billions a year on chips, buildings and power. If the disease were only a refusal to invest, that spending would refute it. The chapter on the

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[169] William Lazonick, "To Boost Investment, End S.E.C. Rule Encouraging Buybacks," Institute for New Economic Thinking, September 14, 2014, https://ineteconomics.org/perspectives/blog/to-boost-investment-end-sec-rule-encouraging-buybacks.

[170] William Lazonick, "Creating a Robust Economy Requires a Corporate Governance Policy Response," *ProMarket*, February 5, 2025, https://www.promarket.org/2025/02/05/creating-a-robust-economy-requires-a-corporate-governance-policy-response/.

[171] S&P Dow Jones Indices, "S&P 500 Q3 2025 Buybacks Post Modest 6.2% Gain to $249.0 Billion," press release, December 18, 2025, https://press.spglobal.com/2025-12-18-S-P-500-Q3-2025-Buybacks-Post-Modest-6-2-Gain-to-249-0-Billion-After-Declining-20-1-Amidst-Uncertainty-in-Q2-Q4-2025-Expenditures-Expected-to-Post-Similar-Growth,-As-2025-Anticipates-a-Record-1-Trillion; for the twelve months to June, S&P Dow Jones Indices, "S&P 500 Q2 2025 Buybacks Declines 20%," press release, September 17, 2025, https://press.spglobal.com/2025-09-17-S-P-500-Q2-2025-Buybacks-Declines-20-Amidst-Uncertainty-to-235-Billion-From-Q1-2025s-Record-293-Billion-Q3-2025-Expenditures-Expected-to-Increase-Back-to-Near-Record-Levels.

machine takes up what kind of investment it is. The point to carry forward is narrower. A firm that has trained its officers, shareholders and lenders for forty years to expect the return of every dollar brings to the building the test it brought to the repurchase: what the outlay does for the price of the shares this year.

The five questions have plain answers here. The number defended is earnings per share and the share price. The thing it stood for was the firm's capacity to produce at a profit. The move is the repurchase. If price were allowed to find the thing, a firm that stopped investing would be valued as a firm in decline, and the repurchase exists to prevent that reading. Officers and shareholders are spared. The workforce, the suppliers and the plant are disciplined. What is fed in is the firm's own cash flow and, increasingly, borrowed money. What is consumed is the research, the spare capacity and the engineering depth that the next decade of production would have needed.

Boeing is the specimen. From the start of 2013 to early 2019 it spent $43.1 billion buying its own shares, more than it earned in those years, and paid another $17.4 billion in dividends. In 2011 it had chosen to hang new engines on an airframe first flown in 1967, at an estimated $3 billion, where a new aircraft was put at $10 billion. The 737 MAX was grounded in March 2019 after two crashes killed 346 people.[172]

Intel shows the course from start to finish. For three decades it defined the leading edge of chip manufacture. From 2001 to 2020 it spent $128 billion buying its own shares, 64% of its net income, and paid another $68 billion in dividends, 35%. Almost nothing of twenty years' profit was kept. In the same years the lead in fabrication passed to Taiwan and Korea. In August 2024 Intel suspended its dividend, cut 15% of its workforce, and lost a quarter of its market value in a day.[173] By then the industry was asking the public for money. The five largest repurchasers among the chipmakers that lobbied for the subsidy law had bought back $249 billion of their own shares in the decade to 2020, 71% of their

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[172] William Lazonick and Mustafa Erdem Sakinç, "Make Passengers Safer? Boeing Just Made Shareholders Richer," *The American Prospect*, May 31, 2019, https://prospect.org/2019/05/31/make-passengers-safer-boeing-just-made-shareholders-richer/, who argue that the payouts and the cheaper aircraft were connected. The development estimates are Richard Aboulafia's, as cited in U.S. House Committee on Transportation and Infrastructure, *Final Committee Report: The Design, Development and Certification of the Boeing 737 MAX*, September 2020.

[173] Lynn Parramore, "America Needs Intel Economically and Politically. But Is It Too Late?," Institute for New Economic Thinking, August 2024, https://ineteconomics.org/perspectives/blog/america-needs-intel-economically-and-politically-but-is-it-too-late, citing William Lazonick for the payout figures.

profits and almost five times the $52 billion the Senate voted them.[174] The subsidy was paid, and in time the government took a share of the company itself.

The five questions fit that sequence. The number was the share price. The thing was the ability to make the most advanced chip. The repurchase produced the first while the second was lost. The reckoning arrived as a collapse in the price, and the state stepped in because the thing had become a matter of national defense. The public paid twice, once for the decades of support that built the industry and again to rebuild what the payouts had run down.

General Electric shows a different course, in which the manufacturer became a lender. When Jack Welch took charge in 1981 it made turbines, engines, locomotives and light bulbs. Under him its financing arm, GE Capital, grew into one of the largest lenders in the country, in credit cards, mortgages, insurance and commercial property, and at its height it supplied more than half of the company's profits. A loan book can be made to deliver a smooth rise in earnings each quarter in a way that a turbine factory cannot, and in 2000 the market valued the company at nearly $600 billion, more than any other in the country. In the middle of 2008 its debt stood above half a trillion dollars. From 2015 it sold most of the lending business and spent some $49 billion on its own shares, at prices more than double what they would fetch three years later. In 2017 it lost $6.2 billion and halved its dividend. In June 2018 it was removed from the Dow Jones Industrial Average, of which it was the last of the original members of 1896.[175] Intel kept its factories and starved them. General Electric kept its name and became another kind of company.

What is consumed can be seen most plainly in research. The corporate laboratory was where the long-dated work of American industry was done. The transistor came out of Bell Labs in 1947, and in the 1960s DuPont's central research unit published more in the leading chemistry journal than the two foremost technical universities combined. Research is the spending that a share price punishes first, since its return is years away and uncertain. The share of research in what American business spends on research and development fell from about 30% in 1985 to under 20% in 2015. The number of scientific papers published per firm fell by a fifth each decade from 1980 to 2006. The largest companies won 41% of the leading awards for new technology in 1971 and 6% in 2006. Bell Labs was separated from its parent in 1996.[176] Discoveries still happen, in universities and in small firms financed by venture funds, and the large company buys them when they

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[174] William Lazonick and Matt Hopkins, "Why the CHIPS Are Down: Stock Buybacks and Subsidies in the U.S. Semiconductor Industry," Institute for New Economic Thinking Working Paper 165 (September 2021), https://www.ineteconomics.org/uploads/papers/WP_165-Lazonick-and-Hopkins.pdf.

[175] Bloomberg, "How GE Went from American Icon to Astonishing Mess," 2019, https://www.bloomberg.com/graphics/2019-general-electric-rise-and-downfall/; Jeff Spross, "The Fall of GE," *The Week*, https://theweek.com/articles/761357/fall-ge; for the 2015 to 2017 repurchases, Simply Safe Dividends, "General Electric Company (GE)," 2018, https://simplysafedividends.com/intelligent-income/posts/158.

are proven. What has gone is the laboratory inside the firm that could spend twenty years on a problem because the firm expected to exist in twenty years.

The defense of the repurchase is that it frees capital. A mature firm with no good projects hands its cash to shareholders, who place it with a young firm that has them, and society's savings flow to their best use. It is a coherent account, and for some firms in some years it is true. As a description of the whole it fails on the direction of the flow. Over the decades since the rule changed, American corporations have put more money into the stock market through repurchases than they have raised from it by issuing shares. Lazonick's summary is that corporations fund the stock market and the stock market does not fund them.[177] The cash handed back mostly buys other existing shares, which raises their price and passes the cash to the next seller. A higher price for existing claims is the output.

This is the cell-level form of the disease. The corporation is where society decides what gets built, and the decision has been turned toward the scoreboard. Every organ examined below shows the same turn at a larger scale: the builder who sells houses to his own affiliate, the lender who extends a loan he cannot collect, the chipmaker who finances his customer, and the Treasury that buys its own bonds.

XIII. Housing

Shelter shows the same signs. The number defended is the sale price of a house and the index built from sale prices. The thing is a home that a wage can pay for.

Through the 1990s the median house sold for about three times the median household's income. In 2025 it sold for nearly five times, and prices had risen 54% since 2020.[178] Nothing about the houses changed. The same rooms on the same lots carry a claim more than half again as large against the same kind of income. What a house is has stayed the same, while what it is worth has been set by something other than the wage.

The defense of that number has a date. When mortgage credit failed in 2007 and 2008, the price of houses began to fall toward what incomes could carry. That fall was one of the old ways out at work: claims were being destroyed and the asset repriced for a new buyer. It was stopped. The two mortgage companies that stood behind most American home loans were taken into government hands in September 2008, and between then and March 2010

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[176] Ashish Arora, Sharon Belenzon, Andrea Patacconi and Jungkyu Suh, "The Changing Structure of American Innovation: Some Cautionary Remarks for Economic Growth," NBER Working Paper 25893 (May 2019), https://www.nber.org/papers/w25893.

[177] William Lazonick, "How 'Shareholder Value' Is Killing Innovation," Institute for New Economic Thinking, July 31, 2017.

[178] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2026* (June 17, 2026); summary at https://jchs.harvard.edu/blog/ten-takeaways-2026-state-nations-housing.

the Federal Reserve bought $1.25 trillion of mortgage bonds.[179] The collateral was saved. The foreclosures ran into the millions while the bonds were made whole. From that point the price of the American house has been a ward of the state. Most mortgage credit passes through agencies the government owns or guarantees, and a fall in house prices is treated as an emergency of the banking system. A price that the state cannot allow to fall has stopped discovering anything.

When a price cannot fall without breaking the collateral beneath it, the market stops clearing by price and clears by volume. Owners holding cheap fixed mortgages stay put, buyers at current rates cannot buy, and the index is computed from the few sales that still occur. Sales of existing homes in 2025 came to 4.06 million, level with 2024 and the fewest since 1995. First-time buyers made 22% of purchases in the year to June 2026, against about 40% before 2008, and their median age was 40, the oldest on record. The index is the scale from the diagnosis: it weighs the few sales that occur and reports health.[180]

The rise in rates fell on a housing market already divided by the pandemic rate cycle. Many existing owners had refinanced at low fixed rates in 2020 and 2021. When rates rose, selling meant surrendering that cheaper loan. FHFA research found that this discouraged sales and restricted the supply of homes available to newcomers, putting upward pressure on prices.[181] A policy that cooled demand also helped keep homes off the market. The resulting strain passed into the ordinary decisions of where people could live and whether they could move.

Builders, who must sell, defend the sticker price by paying down the buyer's mortgage rate and absorbing the cost elsewhere. Lennar, one of the two largest, gave back 14.5% of the price of each home it delivered in the last quarter of 2025 and 12.9% in the spring quarter of 2026, which its chief executive called the first real decline in three years.[182] A short

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[179] Board of Governors of the Federal Reserve System, press releases of November 25, 2008 and March 18, 2009, announcing purchases of agency mortgage-backed securities of $500 billion and a further $750 billion.

[180] National Association of Realtors, "First-Time Home Buyer Share Inches Up to 22%, Median Age Remains at Record High of 40," November 2026, https://www.nar.realtor/newsroom/first-time-home-buyer-share-inches-up-to-22-median-age-remains-at-record-high-of-40. For annual sales, National Association of Home Builders, "Existing Home Sales Climb to Near 3-Year High in December," Eye on Housing, January 2026, https://eyeonhousing.org/2026/01/existing-home-sales-climb-to-near-3-year-high-in-december/.

[181] Coste, Jonah. "The Geography of the Lock-In Effect: Which MSAs Are Most Locked-In?" Federal Housing Finance Agency, August 30, 2024. https://www.fhfa.gov/blog/statistics/the-geography-of-the-lock-in-effect-which-msas-are-most-locked-in. The research distinguishes reduced listings from the demand effect of higher rates.

[182] Lennar Corporation, second-quarter 2026 earnings call, June 2026, remarks of Stuart Miller, transcript at https://www.roic.ai/quote/LEN-B/transcripts/2026-year/2-quarter.

seller's research arm has reported that the same builder sold more than 700 finished homes in about a month to a land company it had spun off the year before, at least 356 of them in the last week of its fiscal quarter. Shareholders have since sued the land company. Nothing has been proven, and the reporter profits if the shares fall.[183] True or false, the allegation describes the move this book has been tracing: a sale that produces the number without a buyer.

Who is spared and who is disciplined is plain. The owner who bought before the rates rose keeps his price. The household that has not yet bought is told to wait, and the Realtors' own economist says many now reach middle age before they buy a first home. The trades that would build cheaper houses are bid away as well: the electricians go where the pay is, which in these years is the data center. In Abilene, Texas, a builder told the *Texas Tribune* in April 2026 that his houses were taking two months longer since the data centers came, and an electrical contractor who pays $20 an hour said he had lost five men to a site paying $35.[184]

The household that cannot buy rents, and the same price reaches it there. In 2024 a record 22.7 million renting households, 49% of all renters, paid more than three tenths of their income for housing, and 12.1 million of them paid more than half. Among renters earning under $30,000 a year, 83% were in the first group. For the 11 million poorest renting households there were 3.8 million homes that they could afford and that were available to them.[185] The price defended for the owner is paid by the tenant as rent.

The owner pays for the defended price as well. In 2024, 20.7 million owner households, about 24%, paid more than three tenths of their income for housing, four million more than in 2019, as property taxes and insurance premiums rose. The rate of homeownership fell in 2025 for a second year.[186]

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[183] Hunterbrook Media published its report on October 2, 2026. The complaint, *Rubenstein v. Millrose Properties, Inc.*, No. 9:26-cv-81386 (S.D. Fla.), was filed on October 9, 2026, and does not name the builder as a defendant. Courthouse News Service, "Investors Hit Real Estate Company Millrose with Fraud Class Action over Undisclosed Leases," October 2026, https://www.courthousenews.com/investors-hit-real-estate-company-millrose-with-fraud-class-action-over-undisclosed-leases/.

[184] Sneha Dey, "Data Center Boom Strains Texas Homebuilders' Need for Electricians," *Texas Tribune*, April 28, 2026, https://www.texastribune.org/2026/04/28/data-centers-texas-electricians-builders/. The economist's remark is in the National Association of Realtors release cited above.

[185] National Low Income Housing Coalition, "JCHS's 2026 State of the Nation's Housing Report Finds Cost Burdens for Renters Continue to Rise," Memo to Members, July 13, 2026, https://nlihc.org/resource/jchss-2026-state-nations-housing-report-finds-cost-burdens-renters-continue-rise-amid; Enterprise Community Partners, "Five Key Takeaways: 2026 State of the Nation's Housing Report," https://www.enterprisecommunity.org/story/five-key-takeaways-2026-state-nations-housing-report.

At the other end is the household that falls out altogether. On one night in January 2024 the government counted 771,480 people without a home, the most since the count began in 2007 and 18% more than a year before. The number of people in homeless families with children rose 39% in that year.[187] A country with its house-price index at a record and its count of the homeless at a record has both for the same reason.

The housing market has begun to register the strain. Among the loans insured by the Federal Housing Administration (FHA), the state-guaranteed door the lowest-income owners entered by, 11.79% were delinquent in the second quarter of 2026 on the Mortgage Bankers Association's seasonally adjusted survey, and serious delinquencies were up more than two points on the year.[188] Across mortgage balances as a whole, about 1% were at least 90 days delinquent in the second quarter of 2026 on the New York Fed's measure, a broader population and a later stage of delinquency than the FHA figure.[189]

Two of the five questions remain. The public resource fed in is the guarantee behind the mortgage and the central bank's purchases of the bonds. The capacity consumed is the supply of homes a wage can buy, and with it what follows from a secure home: the move to a better job, the household formed at twenty-eight instead of forty, the child. One of the old ways out is spent here as well. The last great reserve of labor came under the wage with China's countryside, and the next generation is arriving later and smaller.

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[186] Novogradac, "Harvard JCHS State of the Nation's 2026 Housing Report Highlights Ongoing Housing Affordability Pressures," 2026, https://novoco.com/notes-from-novogradac/harvard-jchs-state-of-the-nations-2026-housing-report-highlights-ongoing-housing-affordability-pressures; National Council of State Housing Agencies, June 18, 2026, https://www.ncsha.org/blog/harvard-joint-center-for-housing-studies-report-finds-housing-affordability-challenges-persist-despite-slowing-demand-and-rising-vacancies/.

[187] U.S. Department of Housing and Urban Development, *The 2024 Annual Homelessness Assessment Report (AHAR) to Congress, Part 1: Point-in-Time Estimates of Homelessness* (December 2024); summarized in "Federal Point-in-Time Homeless Count Was Highest on Record in 2024," *City Limits*, December 30, 2024, https://citylimits.org/2024/12/30/federal-point-in-time-homeless-count-was-highest-on-record-in-2024/.

[188] Mortgage Bankers Association, National Delinquency Survey, second quarter 2026, August 13, 2026 (FHA delinquency rate 11.79%, seasonally adjusted; FHA serious delinquency up more than 225 basis points on the year).

[189] Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, second quarter 2026, released August 11, 2026 (0.99% of mortgage balances 90 or more days delinquent, as reported by NAHB, https://eyeonhousing.org/2026/08/serious-delinquencies-edge-lower-while-mortgage-transitions-rise/).

XIV. Credit, the Household and the Grid

The reckoning is already being deferred by the same move at every scale. In the second quarter Fitch's trailing-year private-credit default rate stood at a record 6%, and maturity extensions accounted for more than half of that quarter's 32 default events.[190] By August the trailing-year rate had risen to a record 6.3%.[191] Extending a maturity creates no cash flow. It moves a deadline. Whether the extra time helps depends on whether the borrower can restore enough income to repay. A building may remain usable through a long recovery. Rapidly obsolete equipment can lose much of its earning capacity before the extended loan falls due, leaving the lender with a later deadline and weaker collateral.

Two debtors show the rule. A household that misses payments on a car is sued, and the court records of eight states show those suits climbing past their old norms. A tower that cannot cover its loan is granted an extension, and a private lender that cannot collect moves the deadline and keeps the loan on its books. The household meets the market. The tower meets a negotiation. When the household fails the word is discipline. When the tower fails the word is disorder, and disorder is what the authorities exist to prevent. Losses in this system are allowed to fall, and they are allowed to fall in one direction.

On the cost of necessities

For 40 years the system found its route to a cheaper worker abroad, through the relocation of production to lower-wage economies. Cheaper labor-power in the periphery lowered variable capital directly, and the cheaper goods shipped home lowered the value of labor-power at home, relative surplus value delivered by geography. Offshoring, like AI, also disciplined the labor force at home through the threat of displacement, swelling the industrial reserve army of the unemployed.

Offshoring helped sustain profits while weakening the American industrial base. Further relocations can lower costs. India, Southeast Asia and Mexico could together enlarge production and markets. I judge their ability to repeat the last forty years of savings at the scale and speed the crisis requires limited by the factories, suppliers, power and ports they would have to develop. Sustained expansion across those regions would count against that judgment. The transfer itself has continued: on a count of embodied labor, the South's

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[190] Fitch Ratings, U.S. private credit default rate for the second quarter of 2026, as reported by Investment Executive, July 30, 2026 (the trailing 12-month rate at 6%, a new high, from 5.7% in the first quarter; 32 default events among 20 new defaulters, more than half of them maturity extensions), https://www.investmentexecutive.com/news/research-and-markets/u-s-private-credit-defaults-rise-fitch-3/. The measure is the trailing 12-month U.S. Private Credit Default Rate, a series Fitch began in August 2024; the rate first reached 6.0% in April 2026 (Bloomberg, May 18, 2026).

[191] For August: Fitch Ratings, U.S. Private Credit Default Rate for the 12 months to August 2026, release of September 14, 2026 (6.3%, a record, from 6.1% in July), as reported by Benzinga, September 14, 2026, and The Lead, https://theleadpc.com/middle-market-private-credit-9-14-2026/.

position improved from 2005 to 2015, mostly through China, and the North's net appropriation has risen again since on trade volume.[192] AI is another attempt to cheapen work at home. Its success has to be measured against the cost reductions it promises, without assuming that every overseas outlet has closed.

For the worker, this is the "cost-of-living crisis." The earlier route no longer cheapens the bundle on the same scale, on this reading, while energy costs and tariffs make many necessities dearer. What it costs to "keep" the worker is rising, whether the rise is labor time or the price of goods alone, and wages fall behind wherever their growth fails to cover the increase. Wage growth below inflation means the wage is losing ground against that cost. Where the cost of what a job now requires comes to outrun the wage, the wage is held under the value of labor-power, the counteracting tendency Marx listed and set aside because it cannot run for long.[193] A worker paid less than it costs to keep them is kept going on credit until they are not kept at all.

The bundle has also grown, because the value of labor-power carries what Marx called a historical and moral element. History has changed what a worker must have to sell labor-power at all: a car where work is dispersed and transit is not, a phone and a connection where the job is found, scheduled and paid through them, insurance where care is priced privately, and childcare where a household needs two wages. On the platforms the worker supplies the car, the phone and the fuel, means of production the employer once owned.[194]

The average American family spent 80% of its budget on food, clothing and shelter in 1901 and half in 2002.[195] That reads as liberation until the modern necessities are counted. In

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[192] Jason Hickel, Morena Hanbury Lemos and Felix Barbour, "Unequal Exchange of Labour in the World Economy," Nature Communications 15 (2024), 6298, https://doi.org/10.1038/s41467-024-49687-y (826 billion hours net-appropriated in 2021; its money series corrected to constant euros on September 4, 2026, https://doi.org/10.1038/s41467-026-77488-y, the hours series unaffected). Lauesen dates the peak of the transfer to 2011 on monetary series (The Long Transition, 322–23, after Long, Feng, Li and Herrera, "U.S.-China Trade War: Has the Real 'Thief' Finally Been Unmasked?," Monthly Review 72, no. 5 (October 2020): 32–43, and Hickel, Sullivan and Zoomkawala, "Plunder in the Post-Colonial Era," New Political Economy 26 (2021)); the measures are not reconciled here.

[193] Marx, Karl. Capital: A Critique of Political Economy. Vol. 3. 1894. Translated by David Fernbach. London: Penguin, 1981. Free online text: https://www.marxists.org/archive/marx/works/1894-c3/index.htm Chapter 14, section II, "Depression of Wages below the Value of Labour-Power."

[194] Karl Marx, Capital, vol. 1 (1867), chapter 6, on the historical and moral element in the value of labour-power.

[195] Marx, Capital, vol. 1, chapter 6, on the "historical and moral element" in the value of labor-power. Bureau of Labor Statistics, Report 991, 100 Years of U.S. Consumer Spending (2006): food, clothing and housing 79.8% of spending in 1901 and 50.1% in 2002 to 2003, https://www.marxists.org/archive/marx/works/1867-c1/ch06.htm and

2024 housing, transportation, food and health care took 71% of the average household's spending. An earlier study, using 2014 data, found that the lowest-income fifth spent more than four fifths of its budget on basic needs, about the share of 1901.[196] The categories and the households differ across those dates, so the figures show how necessities have changed more than they measure it.

The core's workers are not a bought class waiting to be paid again. Their needs rose with the productive forces, the car, the connection, the care, and Marx's point in Wage Labour and Capital holds: wants are social and measured against what the society can produce, so the little house becomes a hut when a palace rises beside it. What makes the core's politics combustible is the blocking of those needs by relations that cannot meet them.[197] The theorist Torkil Lauesen has the core's workers sharing the imperial transfer through what their wages buy. Those benefits have coexisted with wages lagging behind productivity and basic needs going unmet. The question is how far they still secure political allegiance, and what happens where they no longer do.[198]

Plekhanov answered the reformists of his day with the history of the class that came before the proletariat. The reforms the bourgeoisie won, far from blunting the contradiction between its aspirations and the old order, gave a fresh impetus to the growth of its forces and sharpened the contradiction until it became a matter of revolution. The victories that produced the reforms brought revolution closer, provoking reaction in the conservatives and in the innovators a thirst for new conquests. The core's workers have lived the first half of that sequence and the reaction. Their concessions were won by the 1970s, the counteroffensive since 1980 has raised the rate of surplus value, the ratio of labor producing surplus for capital to labor reproducing workers' wages, and the needs the concessions formed have not shrunk with the wages that paid for them.[199]

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https://www.bls.gov/opub/100-years-of-u-s-consumer-spending.pdf.

[196] BLS, Consumer Expenditures in 2024 (December 19, 2025): housing 33.4%, transportation 17.0%, food 12.9%, health care 7.9%, https://www.bls.gov/news.release/cesan.htm; the Hamilton Project, "Where Does All the Money Go: Shifts in Household Spending over the Past 30 Years," June 2, 2016 (the lowest quintile 82% in 2014); Harvard Joint Center for Housing Studies, The State of the Nation's Housing 2026 (a record 22.7 million renter households, 49%, cost-burdened in 2024; units renting under $1,000 down 30% from 2014 to 2024).

[197] Marx, Wage Labour and Capital (1849), on relative wages and the house beside the palace.

[198] Lauesen, The Long Transition Towards Socialism and the End of Capitalism (2024), 19 and 132, on the imperial rent reaching labor as well as capital in the North, and 363 on the dual position. Lauesen's account builds on the theories of unequal exchange of Arghiri Emmanuel and Samir Amin.

[199] G. V. Plekhanov, A Critique of Our Critics, Part I: Mr P. Struve in the Role of Critic of the Marxist Theory of Social Development (1899), section VII; Michael Roberts, October 1,

The AI build-out arrives as another attempt to cheapen work, and the answer is incomplete on its own terms. The bundle's core is the provision of food, energy, space and care. Software can change the work and resources needed to provide them. The savings must be measured in those activities alongside the cost of the software and equipment. The services around the core are where its productivity was first promised, and a survey of executives published in February found almost none, as the chapter on the machine sets out. So far it has not lowered variable capital the way the imports did. The robot is the build-out's claim on the core, and what has shipped so far is the worker in the headset: the wage relation, teleoperated. In September Meta's agent, presented as AI, was found placing its users' phone calls through a call center, the callers not told.[200]

On the wage

Wages rising slower than prices shrink what each job can buy, and July's figures showed it. The August 7 report put annual wage growth in July at 3.2%, the lowest since May 2021, against consumer price inflation of 3.4% in the same month, released five days later.[201] The composition of the report says more than its headline.

The administration's account is supply contraction: deportations have shrunk the workforce, the break-even hiring rate has fallen toward zero, and negative months are consistent with health. But a genuine supply contraction with intact demand bids wages up, because scarce labor is expensive labor. Through the summer wages decelerated below inflation while the labor force shrank. That makes a pure labor-scarcity explanation less convincing and suggests that labor demand was falling at least as fast as labor supply, a reading the composition of the workforce and the timing of the moves could still qualify.

Private payrolls rose 30,000 in July, and construction and health care contributed 22,000 each: strip out the buildout and the substantially state-reimbursed health sector and the market-facing private economy shed workers outright. Retail lost 19,000 and leisure and hospitality 40,000, and the financial intermediation layer, down 121,000 jobs since its May 2025 peak, has been shedding its own workforce for 14 months.[202] The construction gain is

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2026, on the rate of surplus value since 1980.

[200] 404 Media, September 2026: Meta's internal communications on the human agent layer behind Muse's phone calls, testers told only after the call that the caller was a person.

[201] BLS, Consumer Price Index, June 2026 and July 2026 (3.4%, released August 12, https://www.bls.gov/news.release/archives/cpi_08122026.htm; real average hourly earnings down 0.2% on the year); BEA, Personal Income and Outlays, July 2026 (PCE 3.7%, released August 26), https://www.bea.gov/news/2026/personal-income-and-outlays-july-2026. On August 7 the latest consumer price reading available was June's, 3.5%. After the revision, July wage growth stood at 3.1%, still under the price index, with net hiring over the trailing year near 31,000 a month.

[202] U.S. Bureau of Labor Statistics. "The Employment Situation—July 2026." August 7, 2026. https://www.bls.gov/news.release/archives/empsit_08072026.htm. Table B-1 and the release narrative; the subtraction of the two gaining sectors is the author's calculation.

itself a monoculture. Nonresidential specialty trades expand on data-center demand, and the industry's own economists attribute the July gain to the buildout directly.[203]

Marx's reproduction schemes in Volume II, his account of production renewing itself, divide production into Department I, producing the means of production, and Department II, producing consumption goods. Read through those schemes, that table is the build-out's circuit rendered as sectoral employment. Department I expands wherever the capex flows, and Department II sheds labor everywhere wages would have to be spent. One classical argument, Tugan-Baranovsky's, held that the production of means of production can sustain expansion by itself, whatever happens to consumption. This is that configuration, accumulation sustained by Department I producing for Department I, and the classical objection to it holds with full force: the spiral has no independent stability. It runs exactly as long as the credit bridging it runs. The construction workers hired in July are producing real surplus value whose realization is a claim on AI revenues that do not yet exist.[204]

The American mass-consumption economy that anchored post-war global capitalism has meanwhile been hollowing for decades. The top 10% of US households by income accounted for roughly half of all consumer spending in the second quarter of 2025, on Moody's Analytics' estimate, and the bottom 50% for less than 15%. That half rides on what its spenders own: affluent households' consumption moves with stock prices, and the build-out's largest firms are a third of the S&P 500, so the spending that looks insulated from the bottom's squeeze is in part the circuit's collateral spent as income.[205] Real wages for the bottom half have been roughly stagnant since the 1970s, and wealth and income concentration has reached pre-1929 levels.[206] The consumer-facing evidence describes a

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[203] National Association of Home Builders. "U.S. Labor Market Softens in July." Eye on Housing, August 2026. https://eyeonhousing.org/2026/08/u-s-labor-market-softens-in-july/.

[204] Bureau of Labor Statistics, Employment Situation, August 7, 2026, https://www.bls.gov/news.release/archives/empsit_08072026.htm.

[205] Moody's Analytics (Mark Zandi): the top 10% of earners 49.7% of consumer spending on data through September 2024, a record since at least 1989, and 49.2% in the second quarter of 2025, https://finance.yahoo.com/news/rich-people-spending-everyone-else-155138436.html and https://news.bloomberglaw.com/daily-labor-report/top-10-of-earners-drive-a-growing-share-of-us-consumer-spending; in the first-quarter 2026 update the top 20% nearly 60% of personal outlays, up 6.5% on the year, the bottom 80% flat after inflation; their spending influenced by how their stock portfolios perform, and the AI stocks owned by the top decile (Zandi, 2025 and 2026, via USA Today, Fortune and NewsNation); Zandi's own caution that the estimates have drawn methodological criticism and may overstate the case.

[206] World Inequality Database; Piketty, Capital in the Twenty-First Century (2014): the top decile held about 90% of French wealth in 1789 and took about half of national income in the 1780s; the American top decile holds roughly 70% of wealth (Federal Reserve Distributional Financial Accounts) and near half of pre-tax income (WID),

divided market, with weakness among lower-income households and stronger spending at the top. The strain falls unevenly across customer groups and industries.

The corporate earnings calls of 2026 describe severe strain in parts of consumer demand beneath the usual hedged and normalizing language. Whirlpool reported on May 7 that US appliance demand was the weakest since the 2008 financial crisis, its chief financial officer attributing the collapse directly to consumer-confidence damage from the war. The University of Michigan's index of consumer sentiment fell to 48.2 in its preliminary May reading, the lowest since the survey began in 1952.

On the household

Realization asks whether output is sold. Social reproduction asks whether people can sustain their lives and care for one another across generations. It includes a place to live, food and treatment, the journey to work, and time to raise children or care for someone who cannot work. Much of that work is unpaid.[207] Credit can postpone a shortfall in its costs while committing future wages to repayment.

The record before the war was not a straight line down: real wages at the bottom of the distribution grew faster than at the top from 2021 through 2024 on the Atlanta Fed's tracker, and the claim here is about the turn since, not a decline since 1979.[208] The Census count for 2025 agrees: the median household's real income rose 2.6% and the official poverty rate fell to 10.2%, while the supplemental measure, which counts taxes and the safety net, did not move. What broke in that year sat under the median, in the households whose credit was failing.[209]

The household balance sheet is breaking under the strain, and the car loan shows it first. The average monthly payment on a financed new vehicle reached a record $787 in the third quarter of 2026, on Edmunds' count, and 21.2% of those buyers paid $1,000 or more a month.[210] Subprime borrowers, those assessed as higher credit risks, were at least two

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https://www.federalreserve.gov/releases/z1/dataviz/dfa/.

[207] Nancy Fraser, Contradictions of Capital and Care, New Left Review 100, July–August 2016, pp 99–117, https://newleftreview.org/issues/ii100/articles/nancy-fraser-contradictions-of-capital-and-care.

[208] Federal Reserve Bank of Atlanta, Wage Growth Tracker, by wage quartile, 2021 to 2024, https://www.atlantafed.org/research-and-data/data/wage-growth-tracker.

[209] U.S. Census Bureau, release of September 15, 2026: real median household income $87,460 in 2025, official poverty 10.2%, the supplemental measure unchanged at 13.1%, https://www.census.gov/newsroom/press-releases/2026/income-poverty-health-insurance-coverage.html.

[210] Edmunds, new-vehicle financing data for Q3 2026 (financed new-vehicle purchases: average payment $787, from $777 in Q2 and $773 in Q1; 21.2% at $1,000 or more a month; average amount financed $44,664; 25.5% at 84 months or longer), as reported by Auto

months behind on a record 6.9% of their auto loans in January 2026, the highest in more than 30 years of tracking, before the war and the oil shock arrived to compound them.[211] In July 31.1% of auto loans were written past 72 months, a record for the Dealertrack series and up nearly five points on the year.

The auto loan does not stay with the lender. It is pooled, split into layers, or tranches, that take losses in a set order, junior investors losing first, and then rated and sold: the structure that carried the mortgage market into 2008, with car payments where the mortgage payments were. A 2026 Carvana trust of roughly 1.1 billion dollars carries senior notes rated triple-A paying roughly 4 to 4.4%, a stack of junior notes beneath them, and underlying loans with a weighted-average rate of about 10.7%.[212] The senior notes sit in conservative bond portfolios: Fidelity's Conservative Income Bond Fund held the trust's A2 notes at the end of August.[213] The senior holder bets that defaults stay spread out, so that the junior cushions absorb them one at a time and the losses never climb. The counter-case is that auto-loan securities weathered the financial crisis much better than mortgage securities,[214] and these senior notes have layers of loss protection beneath them.

Remarketing, October 1, 2026, https://www.autoremarketing.com/?p=131431.

[211] The Century Foundation, report on auto debt of May 2026, as reported by Tristan Bove, Fortune, May 7, 2026, https://fortune.com/2026/05/07/americans-auto-loan-debt-crisis/: Americans owed approximately $1.68 trillion in auto loans, the highest level ever recorded and more than the country's total credit card debt, with the average payment up nearly 40% since 2018. Negative-equity trade-ins, where the residual debt of the old car rolls into the loan on the new one, were 30.9% of all trade-ins, a record for the series. Fitch Ratings, subprime auto 60-day delinquency index for January 2026 (6.90%, on December 2025 collections), in the Black Book and Fitch Vehicle Depreciation Report 2026, p. 13, https://www.blackbook.com/wp-content/uploads/2026/05/Fitch2026.pdf.

[212] Carvana Auto Receivables Trust 2026-P1. Prospectus, March 10, 2026, offered-notes table. https://www.sec.gov/Archives/edgar/data/1770373/000110465926026877/tm267822d6_424b5.htm Classes A1–A4 pay 3.930%, 4.10%, 4.26% and 4.35%, respectively. Consumer Credit Matters. "Presale Report — Carvana Auto Receivables Trust 2026-P1." Issuance data as of March 17, 2026. https://data.consumercreditmatters.com/abs/issuance/presale/carvana-auto-receivables-trust-2026-p1.html The secondary compilation reports a pool weighted-average APR of 10.67%; that is an average, not every borrower's rate. Form 10-D servicer reports, April to August 2026: pool factor 85.4% and charge-offs rising from zero in March to $405,000 in July.

[213] Fidelity Investments. Fidelity Advisor Conservative Income Bond Fund: Portfolio Holdings Listing, August 31, 2026. https://institutional.fidelity.com/app/proxy/content?literatureURL=%2FCONSINCFA-HRMNTH.PDF Carvana Auto Receivables Trust Series 2026-P1 Class A2, 4.1%, June 11, 2029, CUSIP 14689FAB1; market value $18,701,936, 0.292% of fund net assets. Downloaded October 12, 2026; the URL is a rolling holdings file.

What the protection may underprice is correlation, and the oil shock is a correlation engine built for this asset. A car loan is a claim on a wage that the car is needed to reach, and every borrower in the pool buys the same gasoline at the same price in the same month. Fuel above 4 dollars and diesel near 6, wages decelerating below inflation, the seven-year term that made the payment fit: the physical shock moves every budget in the pool in the same direction at once. The danger is that many borrowers fall behind together and losses exceed the cushions and the correlations the structure's stress tests assumed. Protection calibrated to defaults spread across borrowers and time can prove insufficient when a common fuel shock strains many household budgets together.

Through the second quarter, the first wholly inside the war, the pressure had not reached the headline series: the Federal Reserve's commercial-bank 30-plus-day card delinquency rate fell for an eighth consecutive quarter, to 2.85%, which counts against a simple, across-the-board deterioration.[215] Possible explanations include tax refunds used to pay down balances and underwriting tightened to exclude the borrowers who would otherwise be

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[214] Board of Governors of the Federal Reserve System. Report to the Congress on Risk Retention. October 2010. https://www.federalreserve.gov/BoardDocs/RptCongress/securitization/riskretention.html The historical comparison concerns securitization performance across asset classes; the Carvana prospectus cited in this paragraph documents the senior notes' structural protections.

[215] Board of Governors of the Federal Reserve System, Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks, seasonally adjusted, updated August 25, 2026: the credit card delinquency rate (loans 30 or more days past due and still accruing, plus nonaccrual loans, as a share of end-of-period loans, all insured U.S.-chartered commercial banks) fell in every quarter from its peak of 3.22% in the second quarter of 2024 to 2.91% in the first quarter of 2026, and to 2.85% in the second quarter, the eighth decline in a row, https://www.federalreserve.gov/releases/chargeoff/delallsa.htm and https://fred.stlouisfed.org/data/DRCCLACBS.txt.

defaulting.[216,217] If they account for the decline, headline stability is what stress looks like before it has finished arriving in the data.

The inflation behind it is also a different surge from 2022's. The 2022 surge was broad and came with a labor market tight enough to raise the bottom's wages faster than the top's. The 2026 one runs at a lower headline rate and is narrow, gasoline up 27.4% in the year to August 2026, and it comes with a loosening labor market, cuts in the machine's name and wages below prices. It lands on the bottom, on a price level more than a quarter above 2020's, without the offset, and on the one good the bottom cannot substitute, the fuel for the car it needs to reach work.[218]

The cleaner read of credit sits in the layers around the headline series. The 18-to-29 cohort hit a 5% serious delinquency rate in the third quarter of 2025, more than double a year earlier. By March 2026 nearly three in ten Buy Now, Pay Later users had bought groceries with the loans, up from 14% two years earlier. And 54% say they could not make ends meet without the loans and 47% paid late in the past year: short-term credit has become

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[216] Internal Revenue Service, Filing Season Statistics for the week ending May 8, 2026 ($324.8 billion refunded through May 8, up 18.1% on the year), https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-may-8-2026.

[217] Capital One, second-quarter 2026 results, July 21, and July monthly metrics (Form 8-K, August 14, 2026), https://www.sec.gov/Archives/edgar/data/927628/000092762826000083/0000927628-26-000083-index.htm and https://investor.capitalone.com/news-releases/news-release-details/capital-one-reports-second-quarter-2026-net-income-30-billion-or; JPMorgan second-quarter card guidance, https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/quarterly-earnings/2026/2nd-quarter/6cded9fd-a164-4e6c-8cff-377357cf105c.pdf; Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, second quarter 2026, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/hhdc_2026q2.pdf.

[218] Bureau of Labor Statistics, Consumer Price Index, August 2022 (September 13, 2022: 8.3%, core 6.3%) and August 2026 (September 11, 2026: 3.4%, core 2.4%, the lowest since March 2021, energy 16.3%, gasoline 27.4%), https://www.bls.gov/news.release/archives/cpi_09132022.htm and https://www.bls.gov/news.release/archives/cpi_09112026.htm; David Autor, Arindrajit Dube and Annie McGrew, "The Unexpected Compression: Competition at Work in the Low Wage Labor Market", NBER Working Paper 31010 (2023; revised 2024), the compression counteracting between a quarter and a third of the four-decade rise in 90/10 wage inequality by version.

part of paying for ordinary living costs.[219] The Fed's July 2026 survey found tighter credit-card lending standards in the second quarter, but little change in auto-loan standards.[220]

The enforcement layer confirms the direction. Court records across eight states show debt-collection lawsuits climbing through 2025 past pre-pandemic norms: Missouri's caseload nearly doubled since 2019 to more than 121,000, and Texas recorded roughly 515,000 suits after a 77% rise. Three-quarters were over balances under $4,000, and roughly 70% ended in default judgment because the defendant never appeared.[221] A collection lawsuit comes after every stage the delinquency series measures, and what follows judgment is garnishment and the frozen account. These suits are the arrival the headline series has been deferring, and on August 5 the debt buyer Encore Capital reported record quarterly collections.[222]

The household's remaining relationship to accumulation has meanwhile migrated down the instrument ladder. The 1929 clerk was overleveraged on claims to production, steel,

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[219] LendingTree, 2026 Buy Now, Pay Later Report (surveys of March 3 to 6 and March 17 to 23, 2026; released April 13, 2026): 29% of users have bought groceries with the loans, against 25% a year earlier and 14% two years earlier; 33% of users earning $100,000 or more; 54% say they could not make ends meet without them, 62% of parents with children under 18; 47% paid late in the past year, against 34% two years earlier. TransUnion put the subprime borrower share of consumer credit in the third quarter of 2025 at its highest level since 2019. Mortgage delinquencies began rising in the fourth quarter of 2025 specifically in the lower-income areas the New York Fed identified in its February 2026 report.

[220] Board of Governors of the Federal Reserve System. "July 2026 Senior Loan Officer Opinion Survey on Bank Lending Practices." https://www.federalreserve.gov/data/sloos/sloos-202607.htm

[221] Dan Frosch, "Debt Collectors Chase More Consumers in Court," Wall Street Journal, July 16, 2026, on the Pew Charitable Trusts' study of eight states with court data from January Advisors (Missouri's filings nearly doubled to 121,572 in 2025; Texas up 77% to 515,371; about three-quarters over debts under $4,000 and some 70% ending in default judgments for the creditor, on the estimates of Pew's Lester Bird), copy at https://www.tradingview.com/news/DJN_DN20260716005837:0/; Lester Bird, Casey Chiappetta and Eshaan Kawlra, "Debt Collection Lawsuits Continue to Flood State and Local Courts," Pew Charitable Trusts, July 16, 2026, https://www.pew.org/en/research-and-analysis/articles/2026/07/16/debt-collection-lawsuits-continue-to-flood-state-and-local-courts.

[222] Encore Capital Group, the largest American buyer of charged-off consumer debt, second-quarter 2026 results, August 5, 2026 (record collections of $737 million, up 13%, and in the United States a record $572 million, up 17%, after its strongest American purchasing quarter, $372 million, on what its chief executive called ample portfolio supply), copy at https://finviz.com/news/377876/encore-capital-group-announces-second-quarter-2026-financial-results.

electricity, radio, however overpriced. His successor holds the zero-sum wager: the parlay, a bet combining several outcomes; the prediction contract, a wager on a future event; and the zero-day option, expiring the same day and bought here as a bet on a real asset's next few hours. None of them is a claim on new production. The damage falls unevenly: research on online sports betting finds that financially constrained households cut investment and take on more debt.[223] The wager can become a substitute for the accumulation a wage no longer seems to promise, despair sold as entertainment. And the casino now offers a product 1929 could not: the prediction markets sell wagers on the collapse itself, recession contracts, war outcomes,[224] a population betting on the arrival date of the catastrophe it has not yet organized against. The bottom half's actual margin position sits in no brokerage: it is the installment-financed grocery bill, and its margin call arrives as an order diverting part of a debtor's wages to creditors.

Retirement savings put the household in a loop. On one end it borrows against future wages: auto loans, credit cards, Buy Now Pay Later. Some of what it saves on the other end reaches private credit through pensions, insurers and investment funds, and the funds' largest sector exposure is loans to the software businesses where many of those wages are earned.[225] The AI buildout the funds finance is engineered to displace the workforce of those businesses. To that extent the household's savings are funding the dismantling of the jobs and wages its borrowing depends on.

Debt figures count missed payments to lenders. They do not count what households give up to keep paying. Volume I, chapter 23: capital treats the reproduction of labor power as a cost borne by the worker's own household, and the drive to compress that cost continues until the household cannot carry it.[226]

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[223] Baker, Scott R., et al. "Gambling Away Stability: Sports Betting's Impact on Vulnerable Households." NBER Working Paper 33108, 2024. https://www.nber.org/papers/w33108

[224] Gallagher, Danny. "Recession odds surge amid oil volatility." Kalshi, March 10, 2026. https://news.kalshi.com/p/recession-odds-2026-rise-oil-prices-volatility ; Polymarket. "Iran leadership change or US x Iran ceasefire first?" 2026 contract. https://polymarket.com/event/iran-leadership-change-or-us-x-iran-ceasefire-first These sources establish that the contracts existed; their prices are not a measure of the whole population's beliefs.

[225] BIS Quarterly Review, March 16, 2026, Box B, "Private credit's software lending meets AI disruption," https://www.bis.org/publ/qtrpdf/r_qt2603v.htm (SaaS loans from almost $8 billion in 2015 to over $500 billion, 19% of direct loans) and BIS Bulletin 128 (Fernando Avalos, Giulio Cornelli and Egemen Eren), July 14, 2026, https://www.bis.org/publ/bisbull128.htm (lenders and their equity investors had not yet priced software exposure differently), https://www.bis.org/publications/qr-202603/markets-recalibrate-amid-shifting-currents and https://www.bis.org/publications/bulletin-128-ai-disruption-private-credit-exposure-software-firms-bdcs.

[226] Karl Marx, Capital, vol. 1 (1867), chapter 23, "Simple Reproduction."

The reported condition is consistent with that compression. A survey released in May 2026 by the debt-relief firm Achieve, which sells the remedy the survey finds demand for, found roughly a third of US consumers unable to make the full monthly payment on their household debts. What the survey adds to the delinquency series is the strain on people's health and daily lives: anxiety, fatigue, disrupted sleep, substances managed against the pressure, treatment delayed to save money, and about a quarter of all respondents cutting spending on basic needs.[227]

That is the reproduction cost being defaulted on in the one place where default registers in no credit series. Skipped treatment is deferred maintenance on labor power itself. The household absorbs the shortfall until it cannot, and what follows is a workforce degrading, not a demand curve shifting. The nineteenth-century factory inspectorate documented that condition,[228] and the welfare settlement, conceded while a socialist rival made it thinkable, was built to prevent it.

Some of the cost appears as a life postponed: the home that cannot be secured, the move out of a parent's house that cannot be afforded, or the child someone wants but cannot see how to raise.[229] People may also choose to stay with their parents or have fewer children. The evidence of constraint is the gap between the family they want and the one they can sustain. The UN Population Fund's 2025 survey across fourteen countries found financial insecurity, housing and childcare among the barriers.[230] A fall in births alone cannot tell us whether people have gained freedom or lost it.

Care makes the contradiction visible from both sides of the bill. New York's comptroller found that childcare was becoming harder for families to afford while the people providing

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[227] Achieve and Money. Rising Debt Is Taking a Toll on Americans' Financial and Mental Health. Survey report, May 2026. https://assets.ctfassets.net/80jeq2aeq4l1/7H8YiwBjGkjsRq49HGJ0WO/1faa1000a807c5f9e3bfd8d3ac1e360b/achieve-moneygroup-study-2026-rising-debt.pdf The poll was fielded in February 2026; 34% reported being unable to make their full monthly debt payments. See especially pages 7–9; page 9 reports 26% reducing spending on basic needs.

[228] Marx, Karl. Capital: A Critique of Political Economy. Vol. 1. 1867. Translated by Ben Fowkes. London: Penguin, 1976. Free online text: https://www.marxists.org/archive/marx/works/1867-c1/index.htm Chapter 10, on the working day and the factory inspectors' reports.

[229] National Association of Realtors, First-Time Home Buyer Share Falls to Historic Low of 21%, Median Age Rises to 40, November 4, 2025, https://www.nar.realtor/press-releases/first-time-home-buyer-share-falls-to-historic-low-of-21-median-age-rises-to-40. NAR's median age of 40 covers successful first-time purchasers of primary residences from July 2024 to June 2025; people unable to buy are outside that median.

[230] UNFPA, The Real Fertility Crisis, State of World Population 2025, https://www.unfpa.org/swp2025. The UNFPA–YouGov study surveyed about 14,000 people in fourteen countries.

it had a median personal income of just $25,000 in 2023.[231] A service can cost too much for its users and still pay too little to sustain its workers. Passing the cost between them cannot settle who will provide the care.

The state is withdrawing its share of the reproduction cost in the same quarter the household defaults on its own. The work-requirement regime imposed on nutritional assistance works as documentation attrition: eligible recipients can lose aid when they cannot document work or an exemption, a bureaucratic barricade placed in front of people with irregular jobs and limited resources.[232] The share the state was carrying is measurable at one employer: the auditors counted 12,346 Amazon workers on food assistance and 11,338 on Medicaid in 11 states in September 2025, in a year the company earned $77.7 billion.[233] After the enhanced Affordable Care Act subsidies expired, paid-up exchange enrollment fell from its 2025 high of 22.1 million to 19.2 million in February 2026, roughly 3 million fewer people covered through the exchanges.[234]

The withdrawal may save money now at the cost of the best-substantiated returns in the public-investment literature: children who received nutritional and health assistance

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[231] New York City Comptroller, Child Care Affordability and the Benefits of Universal Provision, January 15, 2025, https://comptroller.nyc.gov/reports/child-care-affordability-and-the-benefits-of-universal-provision/; Wanzi Muruvi and colleagues, The Economic Well-Being of Early Educators in California, UC Berkeley CSCCE, October 22, 2024, https://cscce.berkeley.edu/publications/report/ca-economicwellbeing-2024/. The New York figure is median personal income for childcare workers in 2023, not a full-time wage rate. The California research is statewide, not a San Francisco estimate.

[232] Associated Press. Reporting on SNAP participation losses and work-requirement paperwork, August 21, 2026. https://apnews.com/article/34f582040d8f35a6f44443cdc57692e4 ; Cai, Lexin, Hyewon Kim, and Pauline Leung. “Screening Out the Needy: The Effects of SNAP Work Requirements.” Working paper, September 18, 2026. https://arxiv.org/abs/2609.19660 The working paper studies requirements restored in the 2010s, finding lower participation without increased labor supply; it is not an estimate of the 2026 law’s entire effect.

[233] Government Accountability Office, GAO-26-108703, July 22, 2026 (revised August 24), at Senator Sanders’s request (selected-state employer records for September 2025, https://www.gao.gov/products/gao-26-108703; Census 2024), https://www.census.gov/library/publications/2025/demo/p60-288.html; Amazon, 2025 results (net income $77.7 billion; $11.6 billion in 2020). The September 2025 count of Amazon workers on assistance was nearly three times the 2020 count.

[234] Cox, Cynthia. “ACA Marketplace Enrollment Is Down By 3 Million After Big Jump in Premium Payments.” KFF, June 29, 2026. https://www.kff.org/quick-insights/aca-marketplace-enrollment-is-down-by-3-million-after-big-jump-in-premium-payments/ Based on HHS data released June 26. These are effectuated enrollments; the number becoming uninsured was not yet known.

become measurably healthier, more productive adults.[235] It is the welfare settlement's reproduction subsidy being cancelled at the moment the wage side of reproduction is failing, the two defaults compounding in the same households.

Underneath the household budget runs a transfer the budget does not show, and the Soviet 1920s named it. Trotsky's scissors crisis was a divergence between industrial and agricultural prices, and its question was who subsidizes whom, and what happens when the subsidizing class sees the transfer and refuses it.[236] The United States runs what I call a neo-scissors between its productive urban core and its extractive periphery. In both cases one group finances another: the Soviet case worked through relative prices, the American one through taxes paid and public spending received. New York City contributed 54.5% of its state's revenue in 2021–22 and received 40.5% back.[237] At the federal scale the same handful of metropolitan cores fund the states that vote to dismantle them. The transfer was tolerable while the core's wage grew. It is being priced now in the capex line and the grid bill: the build-out is sold on cutting the knowledge work concentrated in those cores, the wage that funds the transfer, and its demand for power is raising residential electricity rates.

The Soviet scissors, closed by price cuts in 1924, returned in the grain crisis of 1927 and 1928 and were answered by collectivization, taking by force what the price no longer delivered.[238] The comparison asks which sector receives the resources and what it builds

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[235] Hoynes, Hilary, Diane Whitmore Schanzenbach, and Douglas Almond. "Long-Run Impacts of Childhood Access to the Safety Net." American Economic Review 106, no. 4 (2016): 903–934. https://doi.org/10.1257/aer.20130375; Goodman-Bacon, Andrew. "The Long-Run Effects of Childhood Insurance Coverage: Medicaid Implementation, Adult Health, and Labor Market Outcomes." American Economic Review 111, no. 8 (2021): 2550–2593. Working paper: https://www.nber.org/papers/w22899

[236] On the scissors of 1923: Mark Harrison, "Prices in the Politburo, 1927: Market Equilibrium versus the Use of Force," draft chapter for The Lost Politburo Transcripts, ed. Paul R. Gregory, September 1, 2006, 3–5 (by October 1923 industrial goods cost more than three times their prewar relativity in food; the authorities forced industrial prices down and peasant marketings recovered), https://warwick.ac.uk/markharrison/public/politburo2008.pdf.

[237] CUNY Institute for State and Local Governance and the Center for New York City Affairs at The New School, "The Fiscal Flow between New York City and Albany," executive summary December 2025, full report February 2026 (in the state's 2021–22 fiscal year New York City contributed 54.5%, $68.8 billion, of state revenues and received 40.5%, $47.6 billion, of state operating expenditures; on preliminary figures for fiscal 2025, published in March 2026, 55.6% and 41.7%), https://islg.cuny.edu/resources/fiscal-flow-nyc-albany.

[238] On the grain procurement crisis of 1927 and 1928 and the turn to collectivization: Moshe Lewin, Russian Peasants and Soviet Power: A Study of Collectivization (London: Allen and Unwin, 1968).

with them. In the American case, the danger is that the transfer helps finance technologies aimed at reducing the urban wage income on which both household spending and public revenue depend.

On the grid

The 1929 margin loan for stocks raised nobody's electricity bill. The build-out's borrowing does, and the build-out is the marginal bidder for water and chips as well: it bought the memory supply out from under consumer electronics until the shortage reached Apple's own product lines.[239] Speculation that was once claims on paper has become speculation that eats the grid and the consumer economy.

The 50 years that produced this speculation also produced the rotting real economy underneath it. The American Society of Civil Engineers' 2025 Report Card graded American infrastructure at C overall, with 9 of 18 categories rated D or D+, and put the gap between current funding and what the system requires at $3.7 trillion over the next 10 years.[240] Capital and labor that could have maintained and grown infrastructure for human use are being routed into an unproductive and unprofitable build-out that consumes more infrastructure than it can conjure to fuel itself.

Power has already set a ceiling on compute, because computing capacity can be financed faster than reliable electricity can be added to run it. A gigawatt, a billion watts, is about the output of one large nuclear reactor. Goldman Sachs projects US data-center power demand to more than double, from 31 gigawatts in 2025 to 66 by 2027.[241] Construction lags the projection: Sightline Climate's April 2026 audit found 12 gigawatts of data-center demand announced for completion in 2026 against roughly 5 gigawatts under active construction, a 7 gigawatt shortfall. The installed base says the same from the floor: about a sixth of the

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[239] Clover, Juli. "Apple Cuts More Mac Studio and Mac Mini RAM Options as Memory Shortage Worsens." MacRumors, May 5, 2026. https://www.macrumors.com/2026/05/05/apple-mac-studio-mac-mini-ram-cuts/

[240] American Society of Civil Engineers, 2025 Report Card for America's Infrastructure (March 2025): needs of $9.1 trillion against $5.4 trillion of expected investment, 2024 to 2033. The categories rated D or D+ are roads, aviation, transit, storm water systems, drinking water, wastewater, schools, energy and dams. The average US bridge is 47 years old; many were built to a 50-year design life, the span after which a bridge is expected to need major rehabilitation or replacement, and newer ones to 75, so the repair bill for much of the inventory is coming due.

[241] Goldman Sachs Commodities Research, 2026 (31 gigawatts in 2025 to 66 in 2027), https://www.goldmansachs.com/insights/articles/us-data-center-power-demand-projected-to-double-by-2027; Lawrence Berkeley National Laboratory, 2024 Report on U.S. Data Center Energy Use (176 terawatt-hours in 2023, 325 to 580 by 2028); Grid Strategies, 2025 (about 90 gigawatts of data-center peak load additions by 2030 in utility forecasts). Peak load is the most power the grid must supply at a single moment. The Uptime Institute identifies power as the single defining constraint on data-center growth globally.

capacity Microsoft runs holds AI chips, on Bloomberg's September reporting. New generation arrives later still: the hyperscalers have underwritten more than 10 gigawatts of new nuclear capacity in the past two years, most of it not online before 2030.[242] Efficiency raises the work each gigawatt can do, but it also cuts what each task can be billed, which is the seller's problem from the other side.

Blocked at industrial scale, where data centers can be financed faster than the grid can add power to run them, the build-out has begun reaching for the residential grid, a house at a time. SPAN, a maker of smart electrical panels, is partnering with Nvidia and the homebuilder PulteGroup to install fractional data centers on the outside walls of private houses, using spare capacity on local distribution networks.[243][244]

Industrial or residential, the schemes raise one question: who pays for the power infrastructure if a data-center customer leaves? Wisconsin's utility commission answered it in April: very large customers with credit ratings below A-minus must post collateral against the book value of the plants built to serve them, so that ratepayers are not left paying for power a departing developer ordered.[245] Oracle's own affidavit puts that value above $7 billion for its Port Washington campus.[246] Oracle sued in June to undo the rule and offered a tenth.[247]

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[242] Constellation Energy, September 20, 2024; Department of Energy loan of $1 billion, November 2025. The other nuclear commitments include Amazon's small-modular-reactor deployments with X-energy, Google's with Kairos, and Meta's commitments to unlock up to 6.6 gigawatts. Among the hyperscalers' nuclear commitments is Microsoft's 20-year agreement to take the output of a restarted Three Mile Island unit, a $1.6 billion restart.

[243] SPAN. "SPAN Announces XFRA, a Distributed Data Center Solution to Close the Speed-to-Power Gap for AI Compute Demand." April 13, 2026. https://www.span.io/blog/span-announces-xfra-a-distributed-data-center-solution-to-close-the-speed-to-power-gap-for-ai-compute-demand

[244] SPAN. "XFRA." 2026. https://www.xfra.ai/ ; Rogelberg, Sasha. "Startups are installing tiny data centers in people's homes to reduce strain on the beleaguered electrical grid." Fortune, May 15, 2026; current page dated July 25. https://fortune.com/article/what-are-the-startups-installing-tiny-data-centers-in-peoples-homes-to-reduce-strain-on-electrical-grid/ Company estimates and reported proposed household terms. SPAN's site describes an initial 100-home proof of concept, with broader expansion planned for 2027.

[245] Public Service Commission of Wisconsin, decision of April 24, 2026 on We Energies' tariffs for very large customers, as reported by Harshit Agrawal, Clean Energy Forum, Yale University, June 25, 2026, https://cleanenergyforum.yale.edu/2026/06/25/we-energies-data-center-tariff; Nick Zenkin, Latitude Media, July 1, 2026 (collateral from any data center rated below A- by S&P or A3 by Moody's, sized off the net book value of the power plants and dedicated lines built to serve it; Oracle's suit of June 19 in Ozaukee County), https://www.latitudemedia.com/news/does-oracle-actually-have-a-case-against-wisconsins-data-center-rule/.

On the creditors

The creditor side of the trade is fragile in its own right. The $2 trillion private credit asset class roughly matches the subprime mortgage market on the eve of its 2008 collapse. The original capital came from pension funds, endowments and sovereign wealth funds chasing yield after the post-2008 collapse of bond rates. As the institutional pool tapped out, the structure extended into retail through semi-liquid funds, which hold hard-to-sell loans but let investors request limited withdrawals each quarter; their gates are the limits on those withdrawals. Money has to keep coming in for the funds to meet withdrawals in full. When it stops coming in fast enough, the gates close, and the real value of what is inside has to be reckoned with.[248] A closed gate shows that investors want back more than the loans can be turned into cash in time; by itself it does not show that the borrowers cannot repay.

The statistics that should count the creditors' exposure are blind by design, as the unemployment rate is blind to workers who stop looking. Leverage here means borrowing, or contracts, that magnify an investor's exposure beyond the money put up. The visible margin book, a record $1.5 trillion in the Financial Industry Regulatory Authority's count for June 2026,[249] is the number the retail scare stories carry, and it is relatively smaller than the brokers' loans of 1929. It is the decoy.

The borrowing migrated to where no single record can count it. One destination is the basis trade, in which funds buy Treasuries with borrowed money and sell the matching futures

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[246] On employment: John Dinsdale of Synergy Research Group, quoted by Esther Shein, eWeek, March 1, 2025, from the Wall Street Journal's reporting (rarely more than 100 to 200 people once a data center opens; OpenAI's Abilene campus projected at 100 full-time), https://www.eweek.com/artificial-intelligence/wsj-ai-data-centers-jobs/. The developers project more than 1,000 long-term jobs at Port Washington, at least 300 of them Vantage's (Claire Reid, Badger Institute, October 30, 2025, https://www.badgerinstitute.org/?p=56860).

[247] Joe Schulz, "We Energies, Oracle Ask State Regulators to Loosen Financial Protections for Data Centers," WPR, June 12, 2026 (the affidavit of Oracle's Julia Robin: security exceeding $7 billion, at an annual cost that could exceed $100 million, and a proposed letter of credit for 10% of it, about $700 million), https://www.wpr.org/news/we-energies-oracle-ask-state-regulators-to-loosen-financial-protections-for-data-centers; Danielle Kaeding, WPR, June 24, 2026, https://www.wpr.org/news/oracle-sues-wisconsin-utility-regulators-psc-financial-requirements-data-centers.

[248] IMF, Global Financial Stability Report (2026) for the asset class, https://www.imf.org/-/media/files/publications/gfsr/2026/april/english/text.pdf; Inside Mortgage Finance for the 2007 subprime balance.

[249] FINRA, Margin Statistics (Rule 4521), debit balances in customers' securities margin accounts: $1.502 trillion in June 2026, the highest month in the series, which begins in January 1997 (a nominal record), and $1.45 trillion in August, https://www.finra.org/rules-guidance/key-topics/margin-accounts/margin-statistics.

to collect the small gap between their prices. Another is the off-balance-sheet trillions, the leases and purchase commitments the largest technology companies carry outside their balance sheets.[250] In 1929 the largest block of it, the brokers' loans, sat in published figures that a market forecaster such as Roger Babson could total, though those figures never caught all of the era's borrowing. The present structure's innovation is leverage that is hard to total: headline debt figures capture only part of the exposure, and the rest is disclosed in notes or spread across separate entities and instruments.

Each layer of the hidden borrowing is a step away from the New Deal's financial settlement of 1933. The credit moved off the books the Securities and Exchange Commission was built to read, the savings channel moved outside the deposit-insurance perimeter, the margin rules were escaped by instrument design, and the era's largest enterprises organized never to enter the public-disclosure regime at all. The reforms sworn in 1929's memory were left in place and built around, and that is why the instruments fail.

The largest instance of the deferral is the office tower, and it shows what the slow channel does when the system has years instead of quarters. Office loans inside commercial mortgage securities went delinquent at 12.34% in January 2026, the highest reading in the series and above the peak the 2008 crisis produced four years after it broke. The rate dipped in February on extensions granted to five large matured office loans and was still near 12% in August.[251] A sixth of all commercial and multifamily mortgage balances mature in 2026. The regional and community banks hold more than $1.6 trillion of commercial real estate loans, and the Federal Reserve's stability report names them as where a further office correction would land.[252]

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[250] Kohei Yamada, "Five US Tech Giants' Hidden Debts Soar to $1.65tn on Opaque AI Funding," Nikkei Asia, July 21, 2026: about $1.65 trillion of obligations outside the balance sheets of Alphabet, Microsoft, Amazon, Meta and Oracle, eight times the level of four years earlier, chiefly equipment purchase commitments and leases on data centers not yet in operation. Despite the headline, they are disclosed in the notes to the financial statements and the accounting is legitimate. What the headline balance-sheet figures miss is their size, https://asia.nikkei.com/business/technology/five-us-tech-giants-hidden-debts-soar-to-1.65tn-on-opaque-ai-funding. Besides the basis trade and these off-balance-sheet obligations, the borrowing has moved into portfolio margin, which sets a brokerage loan against the modeled risk of a whole account; into the gearing embedded in options; and into private funds' books, which are not marked to market prices.

[251] Trepp, CMBS Delinquency Report, January, February, and August 2026: office 12.34% in January, an all-time high, against 11.76% in October 2025 and the 2012 peak, https://www.trepp.com/trepptalk/overall-cmbs-delinquency-rate-decreased-in-august-2026; 11.20% in February after five large matured office loans were extended. Mortgage Bankers Association, Commercial/Multifamily Mortgage Maturity Volumes, 2026.

[252] Federal Reserve, Financial Stability Report, on regional bank concentration in commercial real estate, https://www.federalreserve.gov/publications/2026-may-financial-stability-report-purpose-and-framework.htm. Relative to their size, the regional and community banks' commercial real estate exposure is several times the largest banks'.

And the correction is being absorbed, building by building. The banks reserved for six years. Delinquencies outside the securitized market fell in the second quarter, two banks failed in 2025 and two so far in 2026 and none of them on office paper, and the Fed's July report found the sector stabilizing.[253] These losses can be severe for particular properties and creditors while remaining absorbable by banks that have reserved against them. That record is the case for a contained correction rather than a chain of bank failures.

The owner loses the equity, the lender takes a partial loss, the loan is extended, and a new buyer takes the same building at a deep discount, at which point the arithmetic works again. The building stays, the tenants stay, the property-tax base beneath the city reprices on the assessment lag, and the old valuation is what disappears. Underneath the delinquency rate the transfer is not finished. On the count of Trepp, the commercial-property data firm, about $12 billion of office loans still performing, their payments current, are secured on buildings whose cash flow no longer covers the debt, many of them well occupied. Their payments come from reserves or the owner's other money, and the loans will be hard to refinance when they mature.[254] In September the wall reached the top of the stack: the AAA slice of a single-asset bond on two Philadelphia towers is recovering about 44 cents on the dollar, with the seven tranches beneath it wiped out, and more than 30 top-rated slices of such bonds trade under 85 cents.[255]

Occupancy was half the equation. The other half is the rate the loan was written at against the rate it must be refinanced at, the sovereign's curve, and the office wall arrived on the schedule the maturities set, with six years to mark it. The AI capex stack is booked against a 36-month economic life on the bearish count[256] and a curve rising into it. The office market

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[253] PNC, second-quarter 2026 results; Mortgage Bankers Association, second-quarter delinquency survey; FDIC, failed bank list, 2025 and 2026; Federal Reserve, Monetary Policy Report, July 2026, https://www.federalreserve.gov/monetarypolicy/2026-07-mpr-summary.htm. PNC's nonperforming share of the office book fell from 11.1 to 8.1% over the same half.

[254] Trepp, analysis of performing office loans with debt-service coverage below one, 2026, https://www.trepp.com/trepptalk/two-fifths-of-the-performing-office-loans-with-sub-breakeven-dscrs-are-on-well-occupied-buildings?hs_amp=true and https://www.trepp.com/trepptalk/office-loans-sub-breakeven-dscrs-hard-maturity-by-2029. Of these loans, $2 billion mature in 2026, $2.1 billion in 2027 and $4.5 billion in 2028. New buyers have taken such buildings at 30 to 70% off. More than 40% of the $12 billion of performing loans with cash flow below the debt service are on buildings at least 80% occupied.

[255] Bloomberg, September 25, 2026 (PIMCO's $58 million at face in the AAA class of the $368 million Centre Square bond, the sale of the towers approved in August, the recovery near 44 cents, more than 30 top-rated single-asset office slices under 85 cents), copy at https://news.bloomberglaw.com/environment-and-energy/pimco-faces-aaa-debt-loss-after-85-writedown-of-office-complex; The Real Deal, September 25, 2026. The two Philadelphia towers were appraised at $471 million in 2019 and sold for $70 million.

has so far absorbed a repricing this size without a sudden collapse. Data centers face the same test with a fraction of the time.

The five questions can now be answered for the household and its creditors. The number defended is the loan carried at its face value, and with it the spending total that is called the consumer. The thing was a household that pays from its wage. The number is kept by extension: the seven-year car loan, the grocery bill paid in installments, the maturity moved for the tower. The tower's lender is spared and the household is sued. What is fed in is the retirement money of the same households, placed in private credit, and the ratepayer's grid. What is consumed is the household's ability to reproduce itself: the treatment skipped, the child not had, the wire not maintained. Two of the old ways out are accounted for in this chapter. Cheap imports are spent: they no longer lower the cost of living. A cut in the wage now defeats itself, because it defaults the loans written on it. A third is shown still working: the tower is sold cheap to a new owner over six years. The chip will not wait that long.

This is wrong if real wages and labor-force participation rise together for two consecutive quarters while household delinquencies fall.

XV. The Arsenal

The arsenal is the organ the empire believed was exempt. The number defended is the budget and the count of carriers. The thing is the capacity to replace what a war consumes.

Cheap weapons can impose costs the defending system cannot sustain. The Russia-Ukraine war had shown years earlier that a drone costing 500 dollars can destroy a several-million-dollar tank. An anti-ship missile or drone costing tens of thousands of dollars can threaten a 13-billion-dollar aircraft carrier. Iran absorbed 2,200 projectiles from coalition strikes in the first three weeks of the war and continued to operate. The Iranian deterrent was pre-positioned over 40 years specifically against the kind of operation the coalition launched. The deterrent works through what I like to call the deep operation by bypass: striking the energy, factories and transport behind an enemy's front line with long-range missiles and drones, without first breaking through that line. Sedan is the incumbent's inherited plan and Barbarossa its execution.

In July the imbalance between the cost of attack and defense put the security of American forward bases in doubt. For 20 years that posture rested on an unstated premise, that American bases and allied capitals were presumptively defensible: the Patriot and THAAD (Terminal High Altitude Area Defense) batteries, built at a cost exceeding 20 billion dollars across the Gulf, converted incoming fire into a manageable attrition problem. The premise

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[256] Against the 36 months, one contract life: CoreWeave said on its second-quarter call of August 11, 2026 that an A100 contract had been extended into 2029 at an attractive price, with older-generation prices at or above a year earlier, and its September convertible-notes presentation repeated the A100 renewal into 2029 beside H200 renewals of three years; an issuer's marketing, not a record of cost recovery.

was taken apart in steps. Months of strikes on the radar, communications and air-defense nodes of five Gulf states and Jordan degraded the early-warning network.[257] On July 17 the premise died at Muwaffaq al-Salti air base in Jordan: a missile struck housing units and killed three American soldiers, the first American combat deaths since the war's opening phase. American officials described missiles that travel at extremely high speeds and can maneuver as they descend, forcing the use of scarce Patriot interceptors, and said they were concerned that China and Russia were supporting Iran's targeting.[258] On my reading, the method can be taught and repeated: degrade the warning network and exhaust the interceptors, then send maneuvering missiles through the remaining defenses.

When interception cannot provide reliable protection, pressure grows to destroy weapons before they are launched. But the incentive to strike first depends on what each side believes can survive. Exposed forces may face pressure to fire early; a hardened, dispersed arsenal can give its owner reason to wait. Iran's underground facilities belong to that second problem: damaging access to a weapon is not always the same as destroying it.[259] The danger is that either side mistakes temporary disruption for disarmament, or fears

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[257] Defence Security Asia, July 19, 2026 (the Gulf's layered air-defense architecture, built at a cost exceeding $20 billion), https://defencesecurityasia.com/en/iran-china-russia-satellite-intelligence-defeats-us-patriot-thaad-missile-defense-2026/, and July 24, 2026 (radar and infrastructure damage in Qatar, the United Arab Emirates and Saudi Arabia, then Kuwait and Bahrain, with the strikes in Jordan), https://defencesecurityasia.com/en/iran-radar-blinding-campaign-gulf-jordan-strike-2026/.

[258] The Wall Street Journal, July 18, 2026, as reported by the Critical Threats Project and the Institute for the Study of War, July 18 (the deaths at Muwaffaq Salti; American officials on missiles that travel at extremely high speeds and can maneuver as they descend, and on their concern that China and Russia were supporting Iranian targeting of American assets), https://www.criticalthreats.org/analysis/iran-update-evening-special-report-july-18-2026; Eric Schmitt and Helene Cooper, New York Times, August 11, 2026 (missiles that could suddenly change course, forcing the use of scarce Patriot interceptors; a missile that struck prefabricated housing units on July 17, killing three soldiers), copy at https://www.postandcourier.com/nation-world/iran-adapted-attacks-as-us-war-munitions-dwindled/article_1979d9b0-f7e1-4bf9-8d60-64cb885a3605.html; Defence Security Asia, July 18, 2026 (reported hits on containerized housing units; "the first direct-fire American combat fatalities since the conflict's opening phase"; a cumulative toll of 16 Americans killed in the war), https://defencesecurityasia.com/en/us-troops-killed-jordan-iran-ballistic-missile-strike-2026-war-escalation/.

[259] Claire Gatinois and Madjid Zerrouky, The rebuilding of Iran's ballistic arsenal challenges claims of a decisive US victory, Le Monde, May 15, 2026, https://www.lemonde.fr/en/international/article/2026/05/15/iran-s-rebuilding-ballistic-arsenal-challenges-claims-of-a-decisive-us-victory_6753487_4.html. The source describes surviving and restored missile capability. The argument about incentives under uncertainty is this work's inference.

that the other is about to achieve it. Crisis instability describes that pressure. It does not mean every weapon must be used at once or that restraint has become impossible.

The magazine, the stock of munitions a force can fire, is the other side of the same arithmetic. The exchange at the strait runs interceptors costing about four million dollars against drones costing about 20 thousand, which means the defending side loses the economic engagement in every exchange it wins tactically.[260] In March the Foreign Policy Research Institute counted roughly 5,200 munitions expended in the war's first 96 hours. It named the industrial constraint underneath: one American plant producing ammonium perchlorate, one plant in Tennessee producing the relevant high explosive, one plant in Michigan producing the turbofans that power the cruise missiles. Its authors concluded that the bottleneck is time and not money, since Congress cannot appropriate ammonium perchlorate into existence.[261] In Spain's wars the Genoese financiers mattered more than the generals, because credit could buy a long war. At the strait credit cannot buy the plant in time, and that is the limit an economy meets once its capacity to produce has moved elsewhere.

The component sets are common across the interceptors and munitions that would be expended against Iran, supplied to Ukraine, and held for the deterrence of China. There is one magazine and three theaters drawing on it. Prosecuting the strait therefore consumes the deterrent it is nominally demonstrating, and a decision to stop striking would recognize that capacity spent here is capacity unavailable in the Pacific.

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[260] New York Times, August 11, 2026 (Patriot interceptors at about $4 million each, on two American officials' count), copy at https://www.postandcourier.com/nation-world/iran-adapted-attacks-as-us-war-munitions-dwindled/article_1979d9b0-f7e1-4bf9-8d60-64cb885a3605.html. Bloomberg, via the South China Morning Post, March 3, 2026 ("US$4 million missiles" against "US$20,000 drones," the Shahed-136 described as a small, rudimentary cruise missile), https://www.scmp.com/news/world/middle-east/article/3345227/irans-cheap-threat-us20000-drones-vs-us4-million-interceptors.

[261] Macdonald Amoah, Morgan D. Bazilian and Jahara Matisek, "Over 5,000 Munitions Shot in the First 96 Hours of the Iran War," Foreign Policy Research Institute, March 16, 2026 (about 5,197 munitions of 35 types in the first 96 hours; ammonium perchlorate from AMPAC's plant at Cedar City, Utah, the single domestic source; RDX and HMX from the Holston Army Ammunition Plant at Kingsport, Tennessee; the turbofans for Tomahawk, JASSM and LRASM from Williams International in Michigan; "Congress can appropriate $16 billion overnight. It cannot appropriate gallium, neodymium, or ammonium perchlorate into existence," so that "the procurement bottleneck becomes time, not money"), https://www.fpri.org/article/2026/03/over-5000-munitions-shot-in-the-first-96-hours-of-the-iran-war/. Danielle Kurtzleben and Steve Inskeep, NPR, April 3, 2026 (the $1.5 trillion defense request for fiscal 2027), copy at https://www.wvia.org/news/politics/2026-04-03/white-house-requests-1-5-trillion-for-defense-spending-in-2027-budget.

By August the magazine was being priced from two directions at once, and by two adversaries. On August 1 Volodymyr Zelensky said Ukraine had run out of interceptors for its Patriot batteries, the air defense it relies on against ballistic missiles.[262] American stocks had been drawn down first by transfers to Ukraine and then by the Gulf war's consumption, and conventional Russian salvos were producing casualty counts the capital had not seen since the invasion year. Bloomberg's reporting from Moscow completed the arithmetic from the other side: hardliners around the Russian leadership were discussing escalation up to the tactical nuclear threshold, and a shortfall in critical American munitions driven by expenditures in Iran was reported as a factor in the calculation. The CIA director's flight to Moscow, reportedly to warn against an attack on NATO interests, the first such trip since the eve of the 2022 invasion, registered the same price at the highest level available.[263] The two wars draw on one inventory, and both sides have counted what is left in it.

The Defense Department's own study of its contractors, published in April 2023, found that across the 2010s they raised the cash paid to shareholders in dividends and repurchases by 73% over the previous decade, while the shares of their spending that went to research and to capital investment fell.[264] Procurement dollars went in and magazines did not come out. The state has since acted on this one organ: an executive order of January 2026 restricted payouts by contractors that miss their obligations, and the four largest cut theirs by about a third within a year.[265] That is the case against my argument here, and it should

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[262] Reuters. "Russia Pounds Kyiv, Kills 10 as Ukraine Appeals for Patriot Interceptors." August 1, 2026. https://www.aol.com/articles/russia-pounds-kyiv-missiles-230030000.html

[263] Bloomberg. "Putin Moves to Escalate War in Ukraine With Talks at Dead End." August 26, 2026. https://www.bloomberg.com/news/articles/2026-08-26/putin-moves-to-escalate-war-in-ukraine-with-talks-at-dead-end ; The Atlantic. Reporting on CIA Director Ratcliffe's Moscow visit, August 26, 2026. https://www.theatlantic.com/international/2026/08/cia-director-ratcliffe-moscow/688424/ ; Meduza. "Bloomberg: European officials doubt the CIA chief's Moscow trip was mainly about an attack on NATO." August 29, 2026. https://meduza.io/en/news/2026/08/29/bloomberg-european-officials-doubt-the-cia-chief-s-moscow-trip-was-mainly-about-an-attack-on-nato The visit took place August 25. Discussion of nuclear options is not a report of preparations to use them.

[264] U.S. Department of Defense, Office of the Under Secretary of Defense for Acquisition and Sustainment, *Contract Finance Study Report*, April 2023, https://www.acq.osd.mil/asda/dpc/pcf/finance-study.html.

[265] Office of Senator Elizabeth Warren, "Warren, Lee Publish New Bipartisan Analysis Revealing Progress on Limiting Defense Contractor Stock Buybacks, Urge Pentagon to Support Codifying Reforms in Law," press release, August 11, 2026, https://www.warren.senate.gov/?p=39285. Combined buybacks and dividends at the four fell from about $4.2 billion in the first quarter of 2025 to about $2.7 billion in the first quarter of 2026.

be weighed. An order can stop the payout. It cannot restore, on the war's timetable, the yards, the tooling and the trades that two decades of payouts were chosen over.

On the carriers and the magnets

The incumbent's carrier count shows what its own base can regenerate. The Nimitz was to leave service in May 2026 and take the fleet from 11 to 10, below the floor the statute sets. In March the Navy extended it to March 2027 because the Ford-class replacement was late, and the ship spent July tied up at Staten Island as the centerpiece of a naval review. The statutory 11 is a number kept by not decommissioning a ship. In early July two carriers were fighting the war, two sat in the Pacific and six were in maintenance, and with the Nimitz in port the deployable fleet in the fourth transition's war was four, a snapshot taken before the later extensions and reinforcements.[266]

The Lincoln, out of San Diego since November 21, 2025 on a deployment planned for seven months, was past 300 days at sea by the end of September, with no relief announced and no port call in more than 200 of them, the longest run on record. The acting Navy secretary wrote to Congress on September 22 that eight sailors of its strike group had attempted suicide on the deployment.[267] The president had said of the deployment that it was not nearly long enough.

The institutional-analytical class in the United States has begun to acknowledge the inversion. In early May 2026 Senators Ted Budd and Jeanne Shaheen published a bipartisan op-ed naming the air-superiority gap, a lag between fleets aging out and the replacements being built. China's sixth-generation J-36 and J-50 first flew in 2024, and the American F-47 is not expected to fly until 2028 or to enter operational service until the mid-2030s. Their remedies, multiyear procurement, larger fighter fleets and retention bonuses for pilots, would address the symptoms without addressing the cause: the productive base from which the fleets are built and the political-economic conditions under which it has hollowed.[268]

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[266] Atlantic Council, tracker of US military assets in the Iran war, May 29, 2026, https://www.atlanticcouncil.org/commentary/trackers-and-data-visualizations/tracking-us-military-assets-in-the-iran-war/; Stars and Stripes, February 27, 2026; Forbes, July 3, 2026 (four carriers deployed, six in maintenance, the Nimitz at Staten Island through July 8, the Ford's 326-day deployment).

[267] Senator Blumenthal to the Secretary of Defense and the acting Secretary of the Navy, August 12, 2026; Stars and Stripes, August 11, 2026; Newsweek, August 14, 2026 (the Roosevelt named to relieve it, no date); Spectrum News, August 17, 2026 (the president's remark); Acting Secretary Cao's letter of September 22, 2026, identified in Senator Gillibrand's statement of September 24; CNN, September 23 to 24, 2026, copy at https://localnews8.com/politics/cnn-us-politics/2026/09/23/eight-sailors-assigned-to-us-carrier-group-that-fought-in-iran-war-attempted-suicide-navy-secretary-tells-congress/.

The defense-industrial base's dependence on Chinese-processed inputs sits underneath the production-rate gap. The F-35 program depends on Chinese-processed rare earth elements for the permanent magnet motors that drive its actuator and propulsion systems. The Tomahawk's fin actuators run on samarium-cobalt magnets made in Pennsylvania and New York from samarium processed almost nowhere but China. When Beijing restricted the metal in April 2025, the contractors were carried on a cache of samarium nitrate that had sat in a French factory since the 1970s.[269] The interagency report of September 2018 on the defense industrial base found that China's industrial policies had already eliminated the American capability to process rare earth elements, and called China a significant and growing risk to the supply of strategic materials.[270] The Government Accountability Office counted about $439 million awarded from 2020 to 2024 to rebuild domestic rare earth supply chains, against the department's own assessment that new domestic sources can take a decade or longer; outside estimates run to 15 to 20 years for the full chain.[271] The arsenal of democracy cannot produce its own arsenals without Chinese inputs.[272]

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[268] Ted Budd and Jeanne Shaheen, "America's Air Superiority Is Losing Altitude," Wall Street Journal, May 5, 2026, reproduced by Senator Budd's office, https://www.budd.senate.gov/2026/05/05/icymi-senators-budd-shaheen-americas-air-superiority-is-losing-altitude/; Air & Space Forces Magazine, "2025 USAF & USSF Almanac: Equipment," June 20, 2025, for the 2024 inventory. The senators reported that the Air Force fighter fleet fell from 4,100 aircraft in 1990 to 2,000 in 2024, with only 1,300 combat-coded, a record low. Its KC-135 tankers are over 60 years old, and China's defense spending has grown thirteenfold across 30 years. The op-ed says Chinese output "could outpace America's by nearly 200% by 2027." The op-ed put the fighter fleet's average age at 27 years and its operational rate at 50%, and proposed multiyear procurement authorization, a 50% increase in fighter fleets by 2035 and retention bonuses for pilots. Budd, a Republican, and Shaheen, a Democrat, both sit on the Senate Armed Services Committee.

[269] Boston Globe, December 22, 2025, on the Solvay cache processed by Less Common Metals for Arnold Magnetic Technologies and Electron Energy Corporation; the two firms' own accounts of domestic samarium-cobalt manufacture.

[270] Interagency Task Force, Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States (September 2018). The 2018 interagency report was published unclassified with a classified annex, and it left the department's own recommendations in a classified action plan.

[271] GAO-24-107176, Critical Materials (September 2024), https://www.gao.gov/products/gao-24-107176; Econofact, "Can the U.S. Reduce Its Reliance on Imported Rare Earth Elements?" July 14, 2025.

[272] Grasso, Rare Earth Elements in National Defense, Congressional Research Service R41744 (2013), citing House Report 112-329, for the 9,200 pounds. Each Virginia-class submarine requires approximately 9,200 pounds of rare earth materials, on a Defense Department estimate the Congressional Research Service recorded in 2013.

On September 17, 2026, the week Saudi Arabia asked for interceptors, the State Department cleared 48 F-35s for the kingdom at $24.3 billion, years from delivery, with magnets processed in the successor's refineries. Three days before Xi's visit to Washington on September 24, the president of the Peterson Institute printed the conclusion as advice. Beijing holds escalation dominance, he wrote, the tariff threats were folly, and decoupling under two administrations made the chains longer and darker. The incumbent should now do what lesser powers have done toward it for 80 years: negotiate from weakness, import and stockpile from China for as long as it can under multiyear purchase agreements paid for in export-control relief, and invite Chinese plants onto its soil as the modern hostage exchange.[273]

The demonstration was run in 2025, before the war. In April Washington's tariff on Chinese goods reached 145%, and Beijing put seven of the 17 rare earths and the magnets made from them under license and answered nothing else. Magnet exports fell by half in April and by half again in May, to 1,238 tons. The 46 tons that reached the United States that month were a tenth of the year before, and Ford stopped the Explorer line in Chicago for a week for want of them.[274] The tariff came down at Geneva on May 12 with the licenses still closed, and the licenses opened after London in June for the price of the incumbent's own countermeasures.[275] Six weeks against 40 years of tariff talk: the valve beat the tariff because a tariff is paid at the border and a magnet is missing from the line.[276] When

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[273] State Department approval of September 17, 2026 (48 F-35A and 49 engines, $24.3 billion, under congressional review; Al-Monitor and Janes, September 17 to 18), https://www.al-monitor.com/originals/2026/09/us-approves-sale-48-f-35-jets-saudi-arabia and https://www.al-monitor.com/originals/2026/09/us-clears-way-243-billion-fighter-jet-sale-saudi-arabia; Adam S. Posen, "China Still Has What America Needs," Foreign Affairs, September 21, 2026.

[274] Ministry of Commerce, Announcement No. 18 of 2025, April 4, 2025, on seven rare earths and their magnets; China customs data for May 2025 as reported by Reuters and the South China Morning Post, June 20, 2025 (1,238 tons of magnets, down 74% on the year, copy at https://www.financialexpress.com/auto/news/chinas-rare-earth-magnet-shipments-halve-in-may/3887094/; 46.4 tons to the United States, down 93%), and Adamas Intelligence, June 2025; Reuters, June 13, 2025, on Ford's Chicago plant, copy at https://www.investing.com/news/stock-market-news/ford-struggles-with-supply-of-rare-earth-magnets-ceo-tells-bloomberg-news-4095284.

[275] United States and People's Republic of China, Joint Statement on the Economic and Trade Meeting in Geneva, May 12, 2025 (145% to 30%); Xinhua, "Chinese Vice Premier Urges U.S. to Resolve Trade Disputes with China through Dialogue, Cooperation," June 11, 2025, on the framework agreed in London on June 9–10; Ministry of Commerce of the People's Republic of China, spokesperson's response on the lifting of U.S. economic and trade restrictions, July 4, 2025, naming design software, ethane and aircraft engines; Reuters, "US Lifts Chip Software, Ethane Curbs as China Trade War Eases," July 3.

[276] Chinese social media's name for the incumbent's president since the trade war of 2018, Chuan Jianguo, "Build-the-Country Trump", the country being China (South China Morning

Washington answered in October with a rule reaching every firm the sanctioned owned, Beijing answered with a rule reaching every product that carried a trace of its rare earths, and both were suspended for a year at Busan on October 30.[277] The license desk is what remained of the exchange, and it is the instrument the war tested through 2026.

The embargo the dependence invites has not come, and the form the restraint took tells more than an embargo would have. The April 2025 licensing regime on the seven controlled rare earths and the magnets made from them stayed in force through the war, and the extraterritorial controls announced in October 2025 were suspended to November 10, 2026 and the American-specific ones to November 27. The license desk set the flow, uneven by month and by buyer, with European imports rebounding and American imports never returning to their 2024 level: 17 tons of yttrium shipped to the United States in the eight months after April against 333 in the eight months before.[278] On the other side of the valve the incumbent's Defense Department has forbidden itself to accept what comes through it. From January 1, 2027, its procurement rule bars the magnets and metals it covers when they were mined, refined or separated in China. Most commercial off-the-shelf items, electronic devices and supply that cannot otherwise be had in time at a reasonable price are exempt.[279] The supplier it bars separates 90% of the world's rare-earth oxides and nearly all of its samarium metal. A valve turned by license, priced by the month, against a buyer barred by its own rule from the source that holds nearly all of it, is a slower instrument than an embargo and a more exact one, and its two expiry dates fall in the weeks after the midterms, on the outgoing Congress.

Post, 2020; What's on Weibo, 2020 to 2025). In late January 2026 a group of nationalist academics published a satirical report thanking the president for tariffs that had closed as a trap on the United States and pushed China toward technological self-reliance, and for an America First that had shown what the rules-based order was (as reported by Renaud Lambert, Le Monde diplomatique, October 2026). The genre was older: China Global Television Network's video of August 2018, "Thanks Mr. Trump, you are GREAT!", pulled within days of its release (Fortune, August 22, 2018), copy at https://www.whatsonweibo.com/banter-and-doubts-on-weibo-after-trump-tests-positive-for-covid-19/.

[277] The Bureau of Industry and Security affiliates rule of September 29, 2025 and MOFCOM's announcements of October 9, 2025; the Busan outcomes of October 30, 2025.

[278] CSIS (Gracelin Baskaran and Meredith Schwartz), Rare Earth Export Restrictions One Year Later, April 27, 2026, https://www.csis.org/analysis/rare-earth-export-restrictions-one-year-later; China Briefing, November 2025; MOFCOM Announcement 72 (US-specific suspension to November 27, 2026); DFARS clause 252.225-7052, phase two effective January 1, 2027. The DFARS clause covers samarium-cobalt and neodymium-iron-boron magnets, tantalum and tungsten mined, refined or separated in China or three other covered states; until January 1, 2027 it reached only their melting and production there.

[279] Defense Federal Acquisition Regulation Supplement, 48 CFR 252.225-7052, paragraphs (b)(2) and (c), https://www.law.cornell.edu/cfr/text/48/252.225-7052.

I expect the license desk to persist past those dates, renewed or replaced, and no embargo to come. An embargo would count against the reading in Part Four that Beijing refuses the war.

Plekhanov noted in 1885 that a backward country can at first, until its home market is glutted, shut out the insuperable competition of more advanced neighbours with a customs system. The incumbent's tariffs are that instrument in the hands of the country that once wrote the rules against it, and their use is a confession of which side of the comparison it now stands on.[280]

For the arsenal the five answers are short. The number is the appropriation and the count of hulls, eleven carriers kept on the books by not retiring one. The thing is the capacity to replace what a war consumes. The number is produced by contracts that deliver over years and by payouts that outran investment for a decade. The shareholders were spared, and three theaters draw on one magazine. What is fed in is the defense budget, and more of it does not cure the condition, since Congress cannot appropriate a propellant plant into existence. What was consumed is the industrial base behind the forces, down to a single plant for one explosive and a magnet that only the adversary can process. Mobilization closes here as a way out. In 1941 the money found idle factories. The factories it would need now are the rival's.

XVI. The Mind: Instruments and Belief

A body that wastes for long enough loses more than muscle. It loses the ability to judge its own condition. This chapter is about the instruments the patient reads, the beliefs he holds about rescue, and why each believer is acting sensibly.

The empire's overextension requires domestic surveillance and suppression that turn the political institutions against the people they serve. The loss of legitimacy degrades the information on which decisions are made, so the failure grows harder to see from inside. The danger is that a response which works in one place increases the burden elsewhere. The shunt is how the wasting shows in the circulation: money that moves while too little of it reaches production at returns that would sustain it. What this chapter adds is an order that cannot see its own failure, because the institutions that would see it are failing too.

The patient is no longer thinking clearly: the information environment has been engineered for self-flattery, engagement and alignment and not for the formation of accurate models of the world, and this has fragmented the population's capacity to perceive a shared reality. The political class has itself mostly been selected for the willingness to repeat narratives that the underlying data no longer supports.

Even brilliant analysts can be trapped by a framework that once brought victory. A state develops an analytical framework accurate enough to outperform its competitors. As those advantages compound into victory, the framework gains authority. What was a living method hardens into orthodoxy, and the institutions that reproduce it punish accurate

[280] G. V. Plekhanov, Our Differences (1885), chapter II, section 1.

diagnosis. The Soviet Academy could not perceive Soviet decline for that reason, and in 2026 the Western framework, free markets, liberal democracy, the rules-based order, is catechism rather than analysis, its think tanks and its foreign-policy establishment operating exactly as the Academy did. Analysts who recognize the decline then enter the Cassandra phase: they warn, and their institutions will not listen. In Castile, Cellorigo in 1600 and Moncada in 1619 read the kingdom's decay while it happened, and the diagnoses did not arrest the decline.

The outsiders who describe the burning best leave a gap of their own: they keep the incumbent's accounts exactly and leave its beneficiary unnamed. So it is with Luke Gromen, Andrei Jikh and the Fed-watcher Danielle DiMartino Booth in their commentary of September 2026. Their accounts point to a beneficiary their shared criterion cannot classify: a state that stands over capital and does not need the profit law to reproduce itself. The criterion that reads the incumbent's decline best leaves its successor out, since naming it would concede that the law the criterion treats as universal is not.[281]

The instrument that reports all this, the headline unemployment rate, has kept its definition since 1994. Its blindness is architectural and not statistical: exit is invisible by design, and any month the labor force shrinks faster than the count of the unemployed, the rate improves while the condition worsens, which is what the July report showed. What has degraded is the apparatus around the definition. Survey response rates have fallen for a decade.[282] The birth-death imputation, an estimate of jobs at newly opened and closed businesses not yet captured in the payroll reports, flatters payrolls at precisely the turning points where the business formation it extrapolates has stopped. That estimation method kept 2008's first estimates mild until the benchmark revisions erased them; the later erasure of a hundred thousand jobs from this spring's count is another warning about reading the first estimate as a settled total.

Against the flatterable series stand gauges that are harder to adjust into comfort, though none is immune to revision or to measurement choices. The employment-to-population ratio, the share of the civilian population aged 16 and over with a job, stood at 58.9% in

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[281] Luke Gromen on the Microscopic Podcast, September 2026; Danielle DiMartino Booth with David Lin, September 22, 2026; Andrei Jikh, September 2026: the three accounts. On the criterion: treating state ownership as merely another form of capitalism makes a state that subordinates profit to other ends impossible to recognize; on the beneficiary's own unconsciousness, the thesis's qualification is "potentially not even fully consciously." The accounts track, among other things, the interest line past defense; the K-shaped economy, in which the top half of households keeps spending while the bottom half falls behind; the stablecoin statute that confines every dollar token to a reserve of cash and short Treasury paper and so manufactures a buyer; the refused request; and the reserve at its statutory line.

[282] Cohany, Sharon R., Anne E. Polivka, and Jennifer M. Rothgeb. "Revisions in the Current Population Survey Effective January 1994." Employment and Earnings, February 1994. https://www.bls.gov/cps/revisions1994.pdf; Bureau of Labor Statistics. "CPS Response Rates." https://www.bls.gov/cps/methods/response_rates.htm

July, the lowest outside the pandemic since 2014.[283] The hires rate is scraping decade lows in a market with few hires and few dismissals.[284]

The reserve series' own custodian has joined the record. The Energy Information Administration, where roughly 40% of staff had reportedly accepted buyouts in 2025, postponed its June supply report by a month, and for that month the weekly figures the market prices from went unchecked against their benchmark.[285][286][287][288]

The war is felt at the pump before the transition is recognized as one. The AI boom offers a different reading of the same period: a new industrial revolution is arriving, and shortages and layoffs are the cost of getting there. That promise has material effects. Investment keeps construction and orders moving, while rising share prices support spending. Lenders advance money against the earnings expected from the machines. Those flows can keep parts of the economy expanding while other parts contract.

Belief in AI changes hiring and firing before the promised gains arrive. The financial class has described how. Asked on Bloomberg Television on August 7 whether that morning's

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[283] Bureau of Labor Statistics, Employment Situation for July 2026, August 7, 2026 (employment-population ratio 58.9%; long-term unemployed 1.8 million, 25.5% of the unemployed; teenage unemployment 12.1% against 14.6% in June), https://www.bls.gov/news.release/archives/empsit_08072026.htm; FRED, series EMRATIO, https://fred.stlouisfed.org/data/EMRATIO.txt (no reading as low as 58.9% from June 2014 to June 2026 outside the pandemic months of 2020 and 2021; 59.1% in August and 59.2% in September 2026).

[284] Bureau of Labor Statistics, Job Openings and Labor Turnover Survey for August 2026, September 29, 2026 (hires rate 3.3%), https://www.bls.gov/news.release/jolts.nr0.htm, and FRED, series JTSHIR, https://fred.stlouisfed.org/data/JTSHIR.txt (3.2% in July 2026; from March 2014 through 2023 no month at or under 3.4% except March and April 2020).

[285] Argus Media. "EIA set to resume weekly US petroleum report." June 28, 2022. https://www.argusmedia.com/en/news-and-insights/latest-market-news/2345540-eia-set-to-resume-weekly-us-petroleum-report The report identifies a June 17 voltage irregularity and failures of two processing servers. It documents the weekly interruption, not the manuscript's former one-week claim about the monthly report.

[286] U.S. Energy Information Administration. Petroleum Supply Monthly, July 2026 data, released September 30, 2026. https://www.eia.gov/petroleum/supply/monthly/

[287] Investing.com. "EIA Delays June Petroleum Supply Data Release Due to System Issue." Edited by Jaiveer Shekhawat, August 31, 2026. https://www.investing.com/news/stock-market-news/eia-delays-june-petroleum-supply-data-release-due-to-system-issue-93CH-4883311

[288] Reuters. "Over 100 employees leave US EIA, putting crucial energy data at risk, sources say." April 16, 2025, republished by GV Wire. https://gvwire.com/2025/04/16/over-100-employees-leave-us-eia-putting-crucial-energy-data-at-risk-sources-say/

jobs report had changed his view of the labor market, BlackRock bond investor Rick Rieder called what he saw a productivity revolution. People credit AI, he said; he credited "an ethos around companies growing their business" and seeing how they could operate without much employment, and he added the fall in immigration as a cause of the shrinking labor force. On a three-month average, he said, job growth outside health care was negative, in an economy he called amazingly strong.[289] The layoffs the market reads as productivity are substantially the productivity story being performed to the market: the cut produces the margin, the margin validates the story, the story justifies the capex, and the wage bill that realization requires is degraded at each pass.

Employers cited AI in 120,136 announced cuts through September 2026, the leading reason for the year and more than twice the number they attributed to AI in all of 2025, while total announced cuts fell from the same period a year earlier. A company can cite AI before it has a working replacement, the outplacement firm cautions, so these announcements do not measure technological substitution.[290] The researchers who checked found more story than substitution. Oxford Economics read the citations as firms dressing up past over-hiring as good news, and found none of the rise in output per remaining worker that real replacement would show. Gartner found that only a fifth of the customer-service leaders it surveyed had cut staff because of the technology.[291]

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[289] Bloomberg Television, "BlackRock's Rieder on Jobs Report, Fed Rates and Bonds," August 7, 2026, https://www.youtube.com/watch?v=JyDPG3OShjY (transcript supplied by the author: "I think we're seeing a productivity revolution"; "People say it's AI kicking in. I actually think it's just been an ethos around companies growing their business and seeing how you can operate without that much employment"; the fall in immigration; about 20,000 jobs on a three-month average, negative outside health care; "the war is a big deal" for fuel prices and trade; the economy at "an amazingly strong level").

[290] Challenger, Gray and Christmas, job cut reports of June 4, August 6, September 3 and October 1, 2026 (AI cited in 54,836 announced cuts in 2025 and 116,175 through August 2026). Challenger, Gray & Christmas, September 2026 job cut report, released October 1: employers cited AI in 120,136 announced cuts through September, approximately 21% of the total and the leading cited reason year to date. Total announced cuts were 39% below the corresponding 2025 period. The technology sector stood at 149,023 through July, https://www.challengergray.com/blog/job-cuts-fall-in-september-hiring-plans-up-3-over-2025-on-weak-early-seasonal-hiring/.

[291] Oxford Economics, research briefing of January 2026, via Fortune (January 7 and February 2, 2026): AI cited in 4.5% of 2025's announced cuts, https://fortune.com/2026/01/07/ai-layoffs-convenient-corporate-fiction-true-false-oxford-economics-productivity/; "We suspect some firms are trying to dress up layoffs as a good news story rather than bad news, such as past over-hiring"; the test of output per remaining worker. The Yale Budget Lab: no overall change in employment in AI-exposed occupations. Gartner, February 2, 2026: only 20% of 321 customer-service leaders surveyed had reduced staffing because of AI.

Lenin had the relation in 1917: the bourgeoisie keeps the worker's wages and output as an open book and cries spying at any control of its own.[292] The firm that cites the machine publishes the worker's output to justify the cut and keeps the capacity that would test it off the books. The need to count the labor required to check AI's output, and the practitioners' record of unshipped chatbots and language-model pipelines built for tasks that never needed one, suggest working replacements are often missing. Where they are missing, the displacement is doubly perverse: workers displaced by stories about machines, and margins booked against a capacity that does not exist.

Michał Kalecki's profits identity states what holds the margins up in the meantime. With national income divided into wages and profits and saving into workers' and capitalists', aggregate profits equal investment plus capitalist consumption plus the government deficit plus net exports, less workers' saving. The identity holds by construction and does not show which term moved the total. That AI investment and the deficit explain the change in profits is this work's empirical reading: with wage income decelerating and the consumer-facing sectors shedding labor, the record margins are being realized against the AI capex itself and the federal deficit. Each firm can improve its margin by cutting jobs, and the gain shows up this quarter. Across firms, those cuts reduce the wage income their sales depend on, and that loss arrives later, on someone else's revenue line. The margins are hostage to the capex continuing, so the earnings offered as proof the boom is real measure how much realization the boom is carrying for itself.[293]

The state pays for the build-out at both ends: through the deficit that realizes the margins, and through the corporate income tax, down 25% in the first 11 months of the fiscal year on the Budget Office's count because the 2025 act lets the buyers deduct their investments up front.[294] Put this work's own figures into the identity: $725 billion of capex and a federal deficit near two trillion help sustain aggregate profits while wage income weakens, and without offsetting changes elsewhere a fall in either would reduce those profits.[295]

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[292] "When an engineer or banker publishes the income and expenditure of a worker, information about his wages and the productivity of his labour, this is regarded as absolutely legitimate and fair" and the reverse as "spying" and "informing" (Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 10).

[293] Kalecki, Michał. Selected Essays on the Dynamics of the Capitalist Economy, 1933–1970. Cambridge: Cambridge University Press, 1971. Library record: https://search.worldcat.org/title/Selected-essays-on-the-dynamics-of-the-capitalist-economy-1933-1970/oclc/13025340 Chapter "The Determinants of Profits."

[294] Congressional Budget Office, Monthly Budget Review: August 2026, September 9, 2026 (corporate income tax receipts $294 billion against $390 billion a year earlier, down $96 billion or 25%, https://www.cbo.gov/publication/61984; "larger deductions for certain investments" under the 2025 act).

[295] Congressional Budget Office, Monthly Budget Review, fiscal 2026, https://www.cbo.gov/publication/61984.

The second quarter added a transfer of its own. The emergency tariffs the Supreme Court overturned had been passed to consumers at the register. The refunds went to the importers, Walmart's alone nearly $2.9 billion, and the households that had borne the cost got nothing back.[296][297][298]

Among vendors and consultants, contradicting a productivity claim can cost a sale. In his conversation with David Gerard on Pivot to AI, the software practitioner Nik Suresh described sellers trapped by the extravagant claims clients had already heard. His phrase

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[296] Walmart, second-quarter fiscal 2027 results, August 20, 2026 ("nearly $2.9B in IEEPA tariff refunds"; Walmart U.S. comparable sales up 2.6% excluding fuel), https://corporate.walmart.com/news/2026/08/20/walmart-releases-q2-fy27-earnings. PYMNTS, August 13, 2026, reporting The Wall Street Journal of the same day (more than 40 S&P 500 companies reported $9.6 billion in tariff refunds in the past quarter or so, about $2.1 billion of it already received in cash), https://www.pymnts.com/?p=4074907. Walmart's second-quarter comparable sales, the slowest pace in six years: Associated Press, August 20, 2026, https://www.local10.com/business/2026/08/20/walmart-sees-the-slowest-pace-in-us-comparable-sales-in-6-years-and-offers-cautious-guidance/; Fortune, August 20, 2026, https://fortune.com/2026/08/20/walmart-sales-growth-six-year-low/.

[297] Bureau of Economic Analysis, "How are the International Emergency Economic Powers Act tariff refunds reflected in BEA's National Economic Accounts?", FAQ 1488, published April 30, 2026, updated June 25, 2026: the refunds are recorded as a capital transfer from the federal government, the full $166 billion (about $664 billion at an annual rate) accrued in the first quarter of 2026, and capital transfers do not affect profits from current production; interest on the refunds is treated separately, as property income, https://bea.gov/help/faq/1488.

[298] U.S. Bureau of Economic Analysis, GDP (Third Estimate), Industries, Corporate Profits (Revised), State GDP, and State Personal Income, 2nd Quarter 2026, September 30, 2026 (profits from current production up $384.0 billion, revised down $16.9 billion), https://bea.gov/news/2026/gdp-third-estimate-industries-corporate-profits-state-gdp-and-state-personal-income-2nd; the second estimate of August 26, 2026 had put the rise at $400.9 billion, after $74.4 billion in the first quarter, https://bea.gov/news/2026/gdp-second-estimate-and-corporate-profits-2nd-quarter-2026. On the BEA series as carried by FRED (CPROFIT), the rise is the second largest in any quarter since 1947, after the third quarter of 2020's $678.6 billion, https://fred.stlouisfed.org/data/CPROFIT.txt.

was “losing face does not make sales.”[299] Belief need not be sincere at every point in the chain if challenging it costs more than going along.

The financial class performs the same belief-maintenance at its own gatherings. At the Milken Institute conference in early May, attendees by their own admission were practicing what one private credit executive called blissful ignorance. One banker, asked about the war, answered: “Does anyone really care if the Strait of Hormuz is open?” At a private dinner hosted by Daniel Loeb in Bel Air, attended by political and financial principals of the regime, the consensus was that the S&P 500 would end the year significantly higher. This is the belief the M-M’ circuit needs, and the participants voicing it are doing the work it requires of them: refusing to mark their holdings to their actual present value.[300]

On the ritual

The reception of the August 7 employment report performed the same function in public. When the economy delivered an outright loss of jobs, the indices rallied and the priced probability of a September hike fell from 57 to 44%.[301] Job destruction was received as good news because, in the belief’s own accounting, the circuit’s financing conditions outrank its realization base.

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[299] Nik Suresh, interview with David Gerard, “Nik Suresh on surviving corporate AI psychosis,” Pivot to AI, July 31, 2026. Author-supplied transcript, 1:52–2:27 and 4:50–5:42; matching episode listing and transcript: https://podscan.fm/podcasts/pivot-to-ai/episodes/20260731-nik-suresh-on-surviving-corporate-ai-psychosis. See also Nik Suresh (Ludicity), “AI Mania Is Eviscerating Global Decision-Making,” July 18, 2026, https://ludic.mataroa.blog/blog/ai-mania-is-eviscerating-global-decision-making/.

[300] The incentive that keeps the belief funded is Dean Baker’s (Center for Economic and Policy Research, interviewed by Isaac Pound on the Tech Report, Times Radio, September 23, 2026): the manager who holds the stock loses nothing if all lose together and loses his post if prudent alone, so the buying continues past the point the arithmetic supports, https://shows.acast.com/the-tech-report/episodes; the mechanism is the reputational herding of Scharfstein and Stein, American Economic Review 80, no. 3 (1990).

[301] Bureau of Labor Statistics, The Employment Situation, July 2026, released August 7, 2026 (nonfarm payrolls down 23,000; May and June revised down by a combined 103,000), https://www.bls.gov/news.release/archives/empsit_08072026.htm. Gertrude Chavez-Dreyfuss, Reuters, August 7, 2026 (LSEG data: a 57% probability of a September hike before the report and 43.9% after), copy at https://www.kitco.com/news/off-the-wire/2026-08-07/us-rate-futures-cut-chances-september-rate-hike-after-jobs-data; James DePorre, TheStreet Pro, August 7, 2026 (44% after the report, from 67% a week earlier), https://pro.thestreet.com/market-commentary/why-investors-are-celebrating-the-poor-jobs-report; Reuters, August 7, 2026 (the Nasdaq up 0.8% and the S&P 500 up 0.3% after the open), copy at https://wtvbam.com/2026/08/07/soft-july-jobs-report-fuels-skepticism-over-possible-fed-rate-hike.

The condition has a name, and the name comes from the last superpower to die of it. The anthropologist Alexei Yurchak called the late Soviet condition “hypernormalization”: the forms of authoritative discourse reproduced with increasing precision as their content emptied, until everyone performed the ritual, the question of belief stopped being asked, and the system looked eternal up to the day it was gone. His title held the paradox: everything was forever, until it was no more. These gatherings of financial and political leaders are the performative shift in its American form. Milken, the Bel Air dinner and the earnings call each reproduce the form, the number going up, the deal announced, the run rate printed. Repeating the form is what holds the price, because a form reproduced at every node can keep the system operating even when it does not express private belief or political consent. The candor is priced, the diagnosis is shared, the ritual continues, and the ritual is the buffer. The transition, the register this work takes from him and carries past what he claimed, is from belief to participation in systems whose risks are openly acknowledged, universal because the participation still pays.[302]

The ritual is now kept by people who no longer claim it leads anywhere. On the account of Tucker Carlson, a former ally who met him alone days before the war, the president answered a warning about where it would lead with: “Yes, you’re right. But in the end, we all die anyway.” It is one man’s account of a private conversation. The account fits the public record: the threat in April to destroy a civilization never to be brought back, and the offer of annihilation from the Assembly’s lectern in September. The far right of the third transition promised its followers a thousand years. A ruling stratum that promises none is what Gramsci called the morbid symptoms of an interregnum, the old dying while the new cannot yet be born. It is the hypernormal at its last stage: the forms performed by those who no longer believe in the future they are spending. Plekhanov’s caution holds: a ruler’s character can change the individual features of events and some of their consequences, not their trend, which other forces set. The fatalism is a feature, and the forces that let it decide a war are the trend.[303]

The administration’s post-truth statements are the visible sign of belief-maintenance. The energy secretary says energy prices are low while Californians pay 6 dollars a gallon and the national average sits a third higher than the day the war began. The administration announces a golden age while the consumer-facing corporations report customer collapse. The political class has to support the belief, because acknowledging that realization and reproduction have failed would force the marks across the entire financial system. The principle that keeps the private credit funds from marking to market keeps the political

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[302] Yurchak, Alexei. Everything Was Forever, Until It Was No More: The Last Soviet Generation. Princeton: Princeton University Press, 2005. https://press.princeton.edu/books/paperback/9780691284484/everything-was-forever-until-it-was-no-more

[303] Tucker Carlson, interviewed by Steve Inskeep, NPR’s Newsmakers, September 24, 2026 (transcript); the White House’s response as reported by Raw Story, September 2026; the April threat as quoted by Common Dreams, September 2026; Antonio Gramsci, Prison Notebooks, Notebook 3, §34 (1930). G. V. Plekhanov, On the Role of the Individual in History (1898).

class from acknowledging the K-shaped data. Both are defending the belief that holds the M-M' circuit together where the M-C-M' circuit has already broken.

On the backstop

Every market position priced at current valuations rests on the state backstop: the belief that whatever happens, the state will absorb the loss. The economist Gita Gopinath, formerly the IMF's chief economist, named it in May 2026 the Bliss trade, the belief in resilience underwritten by big lasting state support.[304] The belief matches what governments have actually done. In 2022 and 2023 European Union governments spent about 2.5% of GDP on energy support for households, when 0.9% would have fully compensated the bottom 40% of households for the rise in energy costs.[305]

The laboratories have named the backstop in their own words. OpenAI's finance chief spoke in November 2025 of "the backstop, the guarantee that allows the financing to happen", and withdrew the word the next day. Its chief executive, Sam Altman, had said weeks before that when something gets sufficiently huge the federal government is kind of the insurer of last resort. The White House's AI adviser, David Sacks, answered that there would be no federal bailout for AI.[306]

The belief now publishes its own risks while it sells. Anthropic's prospectus, the season's largest, gives nearly a third of its main body to the ways the business could fail or do worse, as Reuters reported it on September 28. SB Energy, building the largest lease in Ohio, tells its investors that it has no data center in operation and depends on a single tenant, and Nvidia tells its own that some will call its financing circular. Everybody says it, and the

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[304] Gita Gopinath, "Markets Are Banking on the 'Bliss Trade'," Financial Times, May 8, 2026, https://www.ft.com/content/60f60089-9486-481c-859c-f29b8ccbbd90.

[305] On Europe's energy support: Eunews, May 6, 2026, on the IMF review of energy-support measures presented to the Eurogroup by Oya Celasun on May 4 (EU countries spent around 2.5% of GDP on support for households in 2022 and 2023; fully compensating the bottom 40% of households by income would have cut the bill to 0.9% of GDP), https://www.eunews.it/en/2026/05/06/international-monetary-fund-warns-eu-energy-price-measures-benefit-the-wealthiest/; Oya Celasun and Dora Iakova, "Helping Europe's Households," Finance and Development, December 2022 (0.9% of GDP in 2022 to fully compensate the bottom 40% for the rise in energy costs), https://www.imf.org/en/publications/fandd/issues/2022/12/helping-europe-households-celasun-iakova.

[306] The Wall Street Journal's Tech Live, November 5, 2025, and Sarah Friar's LinkedIn correction, as reported by The Register, November 6, 2025, copy at https://www.theregister.com/software/2025/11/06/openai-cfo-walks-back-remarks-about-federal-loan-guarantees/1086756; Sam Altman's remark as quoted by TBPN, November 6, 2025; David Sacks on X; OpenAI's letter to the Office of Science and Technology Policy of October 27, 2025, on loan guarantees for the wider manufacturing chain.

money still arrives. Disclosure alone does not show that the buyers disbelieve: they may accept the risk, count on a rescue, or not read it. What marks the hypernormal is that participation continues after the risk is acknowledged, whatever each participant privately believes, and the gates keep those who want out from leaving.[307]

The claims have outrun what they are claims on. On the Federal Reserve's own figures for the first quarter of 2026, public equities were worth $79.7 trillion against an economy producing $31.9 trillion a year, two and a half times its annual output and a record. The skeptics are paying for their arithmetic. The best-known of them among fund managers, Rajiv Jain of GQG Partners, trailed his benchmark by more than twenty points in the year to September. At the month's end Bloomberg reported that his funds had begun to buy what he had warned against. Marx called such claims fictitious capital, titles to a share of surplus value not yet produced, and a market that punishes the doubters until they buy is pricing the titles and not the value.[308]

There is a reason the skeptic cannot win, and it was demonstrated in London on March 8, 2022. Nickel prices had more than doubled in a few hours. The London Metal Exchange judged its market disorderly, suspended trading, and cancelled every nickel trade made since midnight, about $12 billion of them. The courts later confirmed that it had the power to do so.[309] The traders who had read the market correctly had their gains erased by the referee. By the exchange's own account, several of its members could not have paid had the trades stood.[310] Haarlem did the same to the tulip contracts in 1638. A market cannot price

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[307] Reuters (Echo Wang and Aditya Soni), September 28, 2026, on the prospectus's risk factors as disclosed, copy at https://www.streetinsider.com/Reuters/Exclusive-Anthropic%2Bwarns%2BAI%2Bmay%2Bpose%2Bexistential%2Brisks%2Bto%2Bhumanity%2Bin%2BIPO%2Bfiling/27115889.html; SB Energy's registration statement, September 1, 2026, as quoted by Gamers Nexus (not opened at the filing); Nvidia earnings call, August 26, 2026. The risk factors fill roughly 80 of the 261 pages of the prospectus's main body on Reuters' count.

[308] The Federal Reserve's Financial Accounts and BEA's annualized output for the first quarter of 2026, as computed by The Trading Tools ($79.67 trillion against $31.87 trillion), https://www.thetrading.tools/manuals/buffett-indicator, historical dataset, Q1 2026 row: https://www.thetrading.tools/data/indicators/buffett-indicator.csv; The Nightly, October 2026, on GQG's flagship fund (minus 1.02% against 22.65%) and its shares (minus 41%); Capital Brief on GQG's outflows; Bloomberg, September 28, 2026, syndicated by Moneycontrol, https://www.moneycontrol.com/news/business/companies/ai-skeptic-gqg-s-rajiv-jain-embraces-the-tech-trade-he-once-shunned-14040365.html; Marx, Capital, vol. 3, chapters 25 and 29.

[309] Stephenson Harwood, "London Metal Exchange Wins High Court Ruling over Cancelled Nickel Trades," 2023, https://www.stephensonharwood.com/insights/london-metal-exchange-wins-high-court-ruling-over-cancelled-nickel-trades/.

[310] *R (Elliott Associates LP and another) v The London Metal Exchange and another* [2024] EWCA Civ 1168, paras. 2 to 3: had the trades stood, members would have had to provide

its own dissolution. No position inside the system pays out on the system's failure, so the skeptic's only trade is to join.

On the rescue

The political question is whether yet another bailout could rescue these structures the way the 2008 bank bailout rescued the mortgage market. That rescue could be wrapped politically in protecting the homeowner on Main Street, and the coalition that authorized hundreds of billions depended on the wrapping. A private credit collapse cannot be wrapped that way: it is, in Jeffrey Gundlach's framing, the richest guys in the world making money in the Wild West.[311] On my judgment, a Treasury rescue of Anthropic, OpenAI and the hyperscaler stocks would be harder still to justify, in an imperial core whose liberal consensus has collapsed among the young since October 7, 2023, and after a media narrative built partly on fears of replacing all workers and on layoffs promoted as AI gains.[312] The structures have grown, and rescuing them would put further pressure on public financing and political authority. The distribution of past rescue costs shapes which claims a government can now ask people to protect.

The belief that validation can be bought has a lineage older than finance. In 1517 the papacy sold indulgences to finance a capex project, the new St. Peter's: paper claims on an infinite surplus, the treasury of merit, sold to retail believers by a universalism already past its material peak. Luther's theses were, on this work's analogy, among other things a solvency audit. Their dispute was narrower than a denial of the treasury of merit: they challenged the sale of indulgences drawn on it, held that the true treasure of the church was the gospel, and held that the truly repentant had full remission without indulgence letters. Grace, on that reading, could not be purchased, only lived. The arc that opened on that audit is closing on its rhyme.[313]

The AI build-out sells claims on a future infinite surplus, the abundance said to wait just over the horizon, to finance the datacenter cathedrals of a universalism past its material peak. Hold the faith, says the J curve, the promise of early losses followed by later returns, and the returns will arrive. The economic question is whether continued financing leads to earnings sufficient to repay the claims. Further investment can keep construction and

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about $19.75 billion of margin at short notice, and multiple defaults were feared. https://caselaw.nationalarchives.gov.uk/ewca/civ/2024/1168

[311] Gundlach, Jeffrey. "Gundlach Compares Private Credit Market to the Wild West." Interview, Bloomberg The Close, May 7, 2026. https://www.bloomberg.com/news/videos/2026-05-07/gundlach-compares-private-credit-market-to-the-wild-west-video

[312] Sharma, "The Global AI Bust," "After the Crash," argues that concern about AI job losses and opposition to data-center projects could discourage politicians from rescuing AI companies, while public debt limits fiscal room. This corroborates the narrower bailout obstacle; the sentence's wider judgment about political legitimacy is this work's own.

[313] Luther, Martin. Ninety-Five Theses. 1517.

purchases going, but those transactions alone cannot establish that the completed capacity will earn its cost. That is the limit the comparison with purchased validation is meant to expose.

Protecting retirement income is one basis for authorizing a rescue. National security, strategic industry and competition with China offer others. The CARES Act passed the Senate 96–0 in March 2020 despite the backlash against earlier bailouts. Channeling pension and annuity money into private funds can strengthen the political case for protecting those claims. The cost, financing and productive effect of a rescue remain separate questions. But wrappable is not affordable. With the 30-year yield again above 5% from July 7 through August, a large rescue would cost more, through the feedback I call the doom loop: higher rates raise the cost of rolling the debt, the cost widens the deficit, and the deficit adds to the supply that pushes rates higher. A rescue can be paid for by taxation, by borrowing or by money creation. If the state will not raise the necessary taxes, and further borrowing feeds the loop, I expect a rescue to rely on money creation, with inflation reducing the purchasing power of the promises it honors. Either outcome completes the doubled expropriation: the current wage taken by the ethos, the deferred wage taken by the default or by the money that rescues it.

The monetary capacity has been spent down on the same trajectory. The Fed's balance sheet went from about $900 billion before the 2008 crisis to nearly $9 trillion after the 2020 pandemic response. It stood near $6.7 trillion in May 2026 and was expanding again under the label "reserve management": purchases of Treasury bills meant to keep bank reserves ample, smaller in scale and different in purpose from quantitative easing.[314] Bank capital requirements are meanwhile being loosened.[315] Allowing banks to hold more assets against the same capital can support lending without a cut in the policy rate. Deregulation is another way policy can keep the financing available while the promised returns are awaited.

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[314] Federal Reserve, H.4.1, August 19, 2026: total assets $6.75 trillion, up 1.9% on the year from the December 2025 runoff low of $6.54 trillion, https://fred.stlouisfed.org/series/WALCL; bill holdings up $339 billion on the year under reserve management purchases; Treasury General Account near $950 billion, https://fred.stlouisfed.org/series/WDTGAL and https://fred.stlouisfed.org/series/WTREGEN. On the way from about $900 billion before 2008 to nearly $9 trillion after the pandemic, the balance sheet reached $4.5 trillion through three rounds of quantitative easing, and quantitative tightening between June 2022 and December 2025 reversed less than half of the pandemic expansion.

[315] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency. "Agencies Issue Final Rule to Modify Certain Regulatory Capital Standards." November 25, 2025; effective April 1, 2026. https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125b.htm.

The pandemic rescue kept incomes and finance from collapsing together, and the Iran war entered an economy already divided by what it left: a higher price level, dearer refinancing, and protection only for those with old fixed-rate debts.[316][317]

Another rescue would therefore meet a different constraint from 2008. Supporting spending while war restricts supplies risks adding to inflation; withholding support can deepen losses of income and credit. Inflation remains above target amid a war-driven gas-price shock,[318][319] against weakening foreign demand for dollar-denominated debt.[320] Money can prevent a forced sale without reopening a shipping lane or replacing damaged energy capacity. On my reading, that widening gap makes each attempt to preserve financial claims more costly to the production and household incomes needed to honor them.

The hollowing produces both the insane financial structures and the political inability to rescue those holding them and exposed to them when they break. No rescue is available that the state can fund in sound money, so the correction arrives through the market or through the unit of account. Arrighi and Silver wrote the sentence for this expansion in 1999, and in paraphrase it runs: the financial expansion of the late twentieth century was no new stage of capitalism and no coming hegemony of markets, it was the clearest sign of a hegemonic crisis, and it would end more or less catastrophically.[321]

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[316] Coste, Jonah. "The Geography of the Lock-In Effect: Which MSAs Are Most Locked-In?" Federal Housing Finance Agency, August 30, 2024. https://www.fhfa.gov/blog/statistics/the-geography-of-the-lock-in-effect-which-msas-are-most-locked-in.

[317] Bernanke and Blanchard, "What Caused the U.S. Pandemic-Era Inflation?"; Powell, "Review and Outlook"; World Bank, Commodity Markets Outlook release, April 26, 2022.

[318] Bureau of Labor Statistics, Consumer Price Index, August 2026 (3.4%, gasoline up 27.4%), https://www.bls.gov/news.release/archives/cpi_09112026.htm.

[319] U.S. Treasury, Daily Treasury Par Yield Curve Rates, July and August 2026 (the 30-year at 5.06% on July 17, above 5% on every trading day since July 7, and at a high of 5.31% on August 17), https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202607 and https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202608; the August market reading of 5.33%, the highest since 2007, as reported by Euronews and Reuters, September 9 and 10, 2026, copy at https://www.investing.com/news/economy-news/us-treasury-to-buy-up-to-6-billion-in-sept-10-buyback-operation-4894098.

[320] Treasury International Capital data for July 2026, released September 16 (net foreign sales of $3.6 billion of Treasury bonds and notes; China's holdings down more than 11% on the year), https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/npr_history.html.

[321] Arrighi and Silver, Chaos and Governance, 273–74, 287–88.

The four hyperscalers' circular AI spending, the private credit funds' unmarked loans, the seven largest companies' weight in the index, the split in household consumption and the administration's post-truth statements are one structural fact on different surfaces. Capital cannot find productive deployment that generates actual surplus value on the scale it requires, so it has manufactured a belief that displaces production in the accumulation circuit. AI is the belief. The arrangement can run as long as performing the belief pays. It stops paying when the machines fail, when they succeed, or when they work and become too cheap to repay what was spent on them. The next chapter sets out all three. The valuations then have to mark to their actual present value, the value of claims on a productive base that has been hollowing out for 40 years.

Marx and Engels wrote in the Communist Manifesto that under capitalism "all that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind." The passage was about capitalism's revolutionary effect on prior modes of production. It applies recursively to capitalism itself. The institutions that organized post-WWII American capitalism (the welfare state, the labor union, the productive industrial base, the social compact between capital and labor, the bipartisan political center) have melted into air over four decades. The system has been trying to preserve capitalist form (private ownership, exchange, accumulation) while its foundations (wage labor, mass consumption, productive base) erode, gradually and then faster.[322]

The mind's number is the index, and with it the unemployment rate and the run rate. The thing was an economy able to pay the claims. The number is produced by instruments that flatter and by a ritual performed at every level, and the price is kept from finding the thing by the referee who can cancel the trade and the gate that keeps the money in. The believer is spared for as long as he stays, and the skeptic is disciplined. What is fed in is the expectation of rescue, which is a claim on the sovereign. What is consumed is the patient's ability to judge his own condition, and that loss is what brings him to the table at the strait. Two ways out are weighed here. The rescue is one the state can no longer fund in sound money. The language of consent is still spoken, as performance.

I read these pressures as the beginning of the center's liquidation. Whether they end American hegemony or defeat capitalist renewal remains answerable to the separate tests. The heart is pumping into the shunt, and what it was meant to feed is starving.

XVII. The Machine

The largest organ comes late in this examination for a reason. It is where the surplus of all the others went.

Why here? Half a century of claims had accumulated with no productive outlet that paid enough, and every rescue had added to them. A handful of firms held monopoly rents they had to place somewhere. Offshoring, the last great method of cutting the cost of labor, was

[322] Karl Marx and Friedrich Engels, Manifesto of the Communist Party (1848), part I.

spent. And one cost line remained that no earlier technique had reached: the salaried work of offices, law firms and software shops. A story that promised to remove that cost was the only story large enough to justify the claims already outstanding. It came wrapped in a contest with China, which made it a matter of state. And each firm that joined was acting sensibly, since the one that held back would lose its position to the one that spent.

So the body is feeding its largest growth with what the other organs lack. The spending is itself the growth that the statistics report, which is why it cannot be stopped without a recession, and why this chapter treats it as both the body's largest growth and its prescribed treatment.

Three endings are possible, and the chapter reaches them once the financing has been laid out. The machines fail to do what they were priced to do, and the write-down is one the system cannot afford. The machines succeed, and remove the wage that buys what they make. Or the machines work and become cheap, useful to everyone and profitable to no one who paid for them.

The American 1990s are the comparison: the incumbent's last season of freedom, and the record of what it did with it. In the decade after 1991 the United States believed it had left the old capitalism behind through computing and the network: the new economy, the business cycle declared repealed, a magazine promising 25 years of prosperity. The productivity revival that ran from 1995 to 2004 was real. The distribution was the choice: the gains went to capital and the top decile, and the base was offshored while the productivity was counted at home. The crash of 2000 was answered with the housing bubble and the Iraq reach, and the top percentile's share of income returned to its 1928 level by 2007 on Piketty and Saez's series.[323] The Gilded Age was restored by the technology that was supposed to end it, and the founder fortunes replaced the railroad fortunes as its emblem. AI is the same belief administered again: the network's promise carried to its end, the incumbent reaching back for its last productive spring.

Where the shells and the interceptors were not built, the data centers were, and the war is now pricing that allocation: about $725 billion of capital spending for 2026, up from roughly $410 billion in 2025[324], guided in the spring by Microsoft, Google, Amazon and

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[323] Piketty and Saez, Quarterly Journal of Economics (2003) and the updated series: the top percentile's share of pre-tax income near 24% in 1928 and again in 2007.

[324] Financial Times capex tally, July 31, 2026 ($725 to $745 billion guided for 2026 by the four), https://www.ft.com/content/dcf3873e-7b32-4a24-a90d-3bccf1d2c996; Financial Times analysis, April 30, 2026, as listed by Techmeme (the four's combined capex at a record $130 billion in the first quarter, set to reach $725 billion in 2026, up 77% from $410 billion in 2025), https://www.techmeme.com/260430/p29; Luke James, "Google, Microsoft, Meta, and Amazon Capex Spending to Hit $725 Billion in 2026, Up 77% from Last Year," Tom's Hardware, April 30, 2026 (the first-quarter reports as compiled by the Financial Times; Microsoft's calendar-2026 capex of $190 billion, $25 billion of it from memory and component costs), https://www.tomshardware.com/tech-industry/big-tech/big-techs-ai-spending-plans-reach-725-billion.

Meta,[325] against a $1.5 trillion defense request for fiscal 2027 that Congress has not funded.[326] It recalls the Genoese financing of Spain's last reach. Spain could convert failed short advances into long-term claims on royal taxes; these AI claims depend on revenue from computing services.

The specimen

In October 2025 the US company 1X Technologies opened pre-orders for NEO, a $20,000 robot the company described as the first consumer-ready home robot, one that would fold your laundry and cook for you and eliminate repetitive household tasks. The company was seeking new funding at the same time.[327] OpenAI's own Startup Fund had led the Series A in 2023. The robot was framed as "embodied AI," the physical manifestation of OpenAI's general-intelligence project.

The Wall Street Journal's Joanna Stern tested it and reported that 100% of NEO's actions during her demo were tele-operated: a 1X employee wearing a virtual-reality headset was piloting the robot through its motions. It took two minutes to fold a shirt. It teetered on its heels trying to close a dishwasher, and it could not crack a walnut.[328]

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[325] Financial Times capex tally, July 31, 2026 ($725 to $745 billion guided for 2026 by Amazon, Microsoft, Alphabet and Meta), https://www.ft.com/content/dcf3873e-7b32-4a24-a90d-3bccf1d2c996.

[326] Danielle Kurtzleben and Steve Inskeep, NPR, April 3, 2026 (the $1.5 trillion request), copy at https://www.wvia.org/news/politics/2026-04-03/white-house-requests-1-5-trillion-for-defense-spending-in-2027-budget; Seamus P. Daniels, Center for Strategic and International Studies, August 18, 2026 ($350 billion of the request routed through reconciliation; no defense appropriations bill enacted), https://www.csis.org/analysis/tracking-fy-2027-defense-appropriations-reconciliation-and-supplemental-request; Harvard University Office of Federal Relations, September 1, 2026 (a continuing resolution to December 11, final fiscal 2027 funding not expected until after the election, and no Senate bills released amid disagreement over the $1.5 trillion request), https://ofr.harvard.edu/news/2026/09/congress-extends-government-funding-through-december-11.

[327] The Information, September 2025: up to $1 billion at a $10 billion or higher valuation, 12 times the January 2024 round, https://www.theinformation.com/articles/humanoid-robot-developer-1x-targets-1-billion-new-funding; not confirmed closed as of mid-2026. The launch tweet drew tens of millions of views and more than 50,000 posts on X within 24 hours.

[328] 1X Technologies, NEO product page, consulted October 2026 (lift 154 lbs, carry 55 lbs, run time four hours), https://www.1x.tech/neo. Joanna Stern's test for the Wall Street Journal, as reported by Jason Nelson, Decrypt, October 29, 2025 (every task operated remotely by a human pilot wearing a VR headset), https://decrypt.co/346648/humanoid-hype-meets-reality-1x-20k-home-robot-skepticism-memes; Scott Hayden, Road to VR, October 30, 2025 (the robot performing no task autonomously in the Journal's demo; a

The company calls the human-driven experience "Expert Mode." The CEO has described it as a "social contract" with early adopters who, in exchange for the privilege of paying $20,000, contribute the audio and video of their daily lives as training data for the autonomous system that may eventually exist.[329] The robot's cameras and microphones stream the interior of the home to the operator.[330] The privacy policy presumes the surveillance and works to make it tolerable, or at least priced at a reasonable exchange rate for maybe not having to do the dishes.

A circularity started to emerge. In December 2025, 1X struck a deal with its lead investor, the Swedish investment firm EQT, to ship up to 10,000 NEO robots to EQT's portfolio companies between 2026 and 2030. The robot marketed for the home pivoted to the factory, and the investor's own portfolio companies became its prospective customers.[331] The robot as demonstrated needed a remote human operator, and whether the units delivered through 2030 will need one is not yet known. If they do, the portfolio companies will pay for machines piloted by humans that 1X employs to perform the labor of actual human employees.

OpenAI is correct: the 1X NEO is the general promise of AI in a body. It promises a generally intelligent agent that can navigate the world and take over varied human tasks. What was actually delivered, packed inside the soft 3D-knit exterior, is human labor teleoperating

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four-hour battery), https://roadtovr.com/helper-robot-neo-vr-telepresence/; John Gruber, Daring Fireball, October 31, 2025, quoting Stern (a human puppet master controlling it with a VR headset; two minutes to fold the shirt; it nearly toppled over while closing the dishwasher), https://daringfireball.net/linked/2025/10/31/stern-1x-neo; Nicole Dominikowski, Notebookcheck, November 16, 2025, on the Journal's video (it failed to crack a walnut), https://www.notebookcheck.net/Humanoid-home-robot-tested-1X-Neo-can-vacuum-but-it-can-t-crack-a-walnut.1164111.0.html.

[329] 1X Technologies, NEO order page, consulted October 2026 (Early Access at $20,000, or a subscription at $499 a month; "Scheduled Expert Mode," in which an Expert from 1X can remotely supervise the robot's actions at scheduled times), https://www.1x.tech/order; 1X Technologies, launch announcement, October 28, 2025 (owners can schedule a 1X Expert to guide NEO through chores it does not yet know), https://www.1x.tech/discover/neo-home-robot; Bernt Børnich, 1X's chief executive, as quoted by Jason Nelson, Decrypt, October 29, 2025 ("In 2026, if you buy this product, it's because you're comfortable with that social contract"; "Without your data, we can't make the product better"), https://decrypt.co/346648/humanoid-hype-meets-reality-1x-20k-home-robot-skepticism-memes.

[330] The NEO product page, consulted October 2026 (dual stereo fisheye cameras and four beamforming microphones), https://www.1x.tech/neo; Joanna Stern, Wall Street Journal, quoted by John Gruber, Daring Fireball, October 31, 2025 (a company representative "potentially peering through the robot's camera eyes to get chores done"), https://daringfireball.net/linked/2025/10/31/stern-1x-neo.

[331] 1X Technologies, announcement of December 2025.

through a VR headset, waving its arms around wildly while the robotic replacement fails to function, delivering a sub-par, expensive, and incomplete substitute for the human. The "autonomous home labor" that drives the valuations and the hype is data being collected to train a future autonomous AI that may or may not eventually exist. The financing problem remains whether the autonomous robot arrives next year or never; failure and success create different pressures on the investment.

The chatbot build-out, AI without a body, is strikingly similar. The premise the hype is intended to sell, living labor replaced by machinery as the source of returns, puts capitalism under pressure whether the build-out disappoints or succeeds, in a specific sense Karl Marx identified more than 150 years ago. Whether those pressures become terminal depends on whether capability, demand and financing hold together, a conjunction I expect to fail. The capability question is whether the machine can do the labor and rebuild itself without a human hand on it. The hype decides how much capital is committed before that question is answered, and how long the answer can be deferred.

The investment can fail even while the technology changes the balance of power. Cheap AI joined to cheap drones could reduce the human work needed to wage war as well as to perform civilian tasks. Whether the companies earn back their spending and whether the machines make the world more dangerous are separate questions.[332]

Each firm that replaces workers with machines acts rationally: it cuts its own costs and, until its rivals catch up, widens its own margin. Across the economy, those investments may weaken the system that finances them. Marx locates profit in the living labor a firm employs and competition in each firm's effort to employ less of it, so that what enriches the firm that automates first starves the system that automates together. The labor theory of value is contested as a theory of prices, and most economists think it superseded. As a regularity it has held up better than its critics expected: across input-output tables in several countries, sectoral prices track the labor embodied in them closely. Whether that is more than a matter of industry size is still argued.[333]

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[332] International Committee of the Red Cross, "ICRC Position on Autonomous Weapon Systems," May 12, 2021, https://www.icrc.org/en/document/icrc-position-autonomous-weapon-systems; United Nations Secretary-General, Work of the Advisory Board on Disarmament Matters, A/80/240, July 23, 2025, p. 7, paras. 23–27, https://unidir.org/wp-content/uploads/2025/08/UNIDIR-2025-ABDM-Report.pdf. The labor-saving military application is a conditional inference from the capabilities and risks discussed in these sources.

[333] Paul A. Samuelson, "Understanding the Marxian Notion of Exploitation", Journal of Economic Literature 9, no. 2 (1971); Ian Steedman, Marx After Sraffa (1977); Anwar Shaikh (1984) and Eduardo Ochoa, Cambridge Journal of Economics 13 (1989); Paul Cockshott and Allin Cottrell (1997, 2003) and Dave Zachariah (2006), correlations and coefficients of determination considerably above 0.9 on the survey by Nils Fröhlich (2010); Andrew Kliman (2002, 2004) on spurious correlation by industry size, and the reply of Cockshott, Cottrell and Alejandro Valle Baeza (2014) from the Swedish tables, which count labor in person-years.

The AI build-out can no longer be funded from operating cash flow, even the whole company's: it now consumes more than all the product lines together leave after existing expenses. Amazon's free cash flow, the cash left after running the business and paying for its investment, went negative in the second-quarter filings, and Alphabet's followed. CreditSights's February forecast put Oracle's capital expenditure near 86% of sales for calendar 2026, a level until recently unthinkable.[334]

On the variable-capital side, the labor the tools are supposed to make more productive, AI is sold as a productivity miracle. In reality it is in wide use and thin use. A four-country survey conducted from November 2025 to January 2026 found that 69% of nearly 6,000 firms used AI. Executives reported about 90 minutes of use a week. About 89% reported no productivity effect over the previous three years. Coding their response bands at representative values gave an average reported increase of 0.29% in sales per employee.[335] A provincial audit tested the reliability of the tools where the gain was promised. Ontario's auditor general reviewed the province's own tests of AI medical scribes, tools that listen to a consultation and write the physician's clinical notes, in which two simulated consultations were run through each of the 20 vendors approved for its physicians. Every vendor's notes were inaccurate in at least one of the two, 12 recorded the wrong drug, and accuracy was weighted 4% of the score that approved them.[336]

The rate of profit

The rate has been held up the way Marx said it would be, by raising exploitation faster than the machines could lower it. On the Marxist economist Michael Roberts's conversion of the

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[334] Jordan Chalfin and Michael Pugh, "Tech: Raising Hyperscaler Capex 2026 Estimates," CreditSights, February 9, 2026. Its forecasts for capital expenditure as a share of calendar-2026 sales were Oracle about 86%, Meta 54%, Microsoft 47%, Alphabet 46% and Amazon 25%. These are forecast ratios, not trailing-four-quarter results.

[335] Yotzov et al., "Firm Data on AI," NBER Working Paper 34836, February 2026 author version, figure 10 and table 4; fieldwork November 2025–January 2026. The 0.29% pooled mean codes categorical answers about sales per employee over three years. It covers the full responding sample, including no-effect answers. Country samples use different weighting arrangements. https://wfhresearch.com/wp-content/uploads/2026/03/Firm-Data-on-AI-16-February-2026.pdf PwC, Global CEO Survey, January 2026: 56% of CEOs reported neither revenue nor cost benefits from AI in the prior 12 months, a different survey and a different measure from the productivity question. The NBER survey covered nearly 6,000 senior executives at firms in the United States, the United Kingdom, Germany and Australia; PwC's 29th Global CEO Survey, published in January 2026, polled more than 4,000 chief executives in 95 countries and territories.

[336] Auditor General of Ontario, special report on the use of artificial intelligence in the Ontario government, May 12, 2026 (Canadian Press; Ars Technica): about 5,000 physicians using the tools, no reported patient harm. Of the 20 vendors, nine produced notes that invented referrals or tests, 12 recorded the wrong drug and 17 missed the mental-health details.

national accounts into Marx's categories, the rate of surplus value has risen 57% since 1980 and 17% since the pandemic, to near its post-war peak.[337] After-tax corporate profits also took a larger share of national income in the second quarter of 2026 than a year earlier.[338] This measures the income going to corporations. A return on investment divides profits by the capital committed to earning them, so a rising income share does not establish that the AI build-out will pay for itself.

The counteracting factor in production is the realization problem in circulation: the share that props up the rate of profit is the share the wage no longer buys back. More than a century ago the revisionists held that reform was blunting the contradiction between labor and capital, and Plekhanov answered that the working class's relative share of the social income had fallen despite the reforms.[339] The case made in 2026 for a stable labor share, on the Tax Foundation's net measure, is the blunting thesis in the form of national accounts, and on that measure the share, at 68.3% in the second quarter of 2026, is the lowest since 1948.[340]

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[337] Michael Roberts, "Labour's share", October 1, 2026, and "AI and the profits boom", September 1, 2026 (BEA national accounts, https://thenextrecession.wordpress.com/2026/10/01/labours-share-2/ and https://thenextrecession.wordpress.com/2026/09/01/ai-and-the-profits-boom/; his calculations).

[338] US Bureau of Economic Analysis. "Corporate Profits After Tax with Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj)." Quarterly series CPATAX, via FRED. Accessed October 13, 2026. https://fred.stlouisfed.org/series/CPATAX. US Bureau of Economic Analysis. NIPA Table 1.7.5, "Relation of Gross Domestic Product, Gross National Product, Net National Product, National Income, and Personal Income." Q2 2026 release, via FRED. Accessed October 13, 2026. https://fred.stlouisfed.org/release/tables?eid=15274&rid=53. Q2 2026: 3,877.434 / 27,390.093 × 100 = 14.16%; Q2 2025: 3,281.549 / 25,602.560 × 100 = 12.82%. Both series are billions of dollars at seasonally adjusted annual rates, accessed October 13, 2026. The ratio measures an income share, not a return on capital.

[339] G. V. Plekhanov, A Critique of Our Critics, Part I (1899); the Tax Foundation, "Capital is not taking half of America's income" (2026), and Michael Roberts, "Labour's share", October 1, 2026. Plekhanov held that the share had fallen in every advanced capitalist country and that social development proceeds through the aggravation of contradictions and not their blunting. The revisionists Plekhanov answered on labor's share were Pyotr Struve in Russia and Eduard Bernstein in Germany.

[340] The Tax Foundation, "Capital is not taking half of America's income" (2026), on the net measure (about 69% in the late 1940s, about 75% in the 1970s, 68.3% now), with Roberts' reply that depreciation is still value appropriated by capital and that deducting it from both profits and the capital stock leaves the rate of profit unchanged. The profit share of national income and the Tax Foundation's labor share are measured on different bases and do not divide one total between them: national income also includes proprietors' income, rent, interest and taxes on production, and the net measure deducts depreciation, which puts

Put the year's two readings together and the recovery of the rate has two props, and each undermines the other. The first is the rate of surplus value, wages held under prices while output rises, which is the household squeeze seen from the other side. The second is the build-out's own spending, which arrives at Nvidia and the other sellers as revenue and profit, the circuit Kalecki described in which investment returns as profit in the year it is spent, financed by AI-related borrowing and by Nvidia's support for its own buyers.[341] The first prop shrinks the demand the second must eventually be validated by. The second lasts only as long as the borrowing does, which is why the profits sit where they sit and why a turn in either prop takes the rate with it.[342] Goldman's arithmetic says the same. The beneficiaries of the build-out's spending are about half of the S&P 500's earnings growth this year, while the productivity the spending was meant to buy adds four tenths of a point. A $250 billion swing in the spending moves the index's earnings growth by about six points either way.[343]

Surplus value can exceed the wage bill, and nothing in the law prevents it. On the national accounts rebuilt to separate productive from unproductive labor, the series Anwar Shaikh and Ahmet Tonak began and Dimitris Paitaridis and Lefteris Tsoulfidis carried to 2007, the American rate of surplus value stood at the highest levels on record, on rising productivity and flat or falling real wages for productive workers. In that reconstruction the general rate of profit recovered from the early 1980s, while the net rate stayed well below its 1960s level, a gap the authors attribute largely to the growing costs of unproductive activity.[344] A

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labor's share higher.

[341] Luke Kawa on Odd Lots, Bloomberg, October 1, 2026, at 29:40 to 30:40, https://www.youtube.com/watch?v=7lUQBXqhnn4. The profit equation of the businessman Jerome Levy rests on the same relation: one firm's investment spending becomes another firm's revenue and can support profits before the new investment earns its own return. Luke Kawa of Sherwood News put the mechanism in the language of that equation on Bloomberg's Odd Lots podcast: the safest sources of profit now are the build-out's borrowing and the sovereign's deficit, safe until they are not.

[342] Michał Kalecki, Theory of Economic Dynamics (1954), on the determination of profits by investment; Michael Roberts, October 1, 2026.

[343] Goldman Sachs Research, May 2026, and the September updates as reported (GuruFocus via Yahoo Finance, https://www.goldmansachs.com/insights/articles/tracking-trillions-the-assumptions-shaping-scale-of-the-ai-build-out and https://www.gurufocus.com/news/9097315/goldman-sachs-forecasts-50-growth-in-ai-infrastructure-spending-by-major-cloud-providers). Goldman's figures put Nvidia and Micron at a third of the S&P 500's earnings growth this year by themselves.

[344] Shaikh and Tonak, Measuring the Wealth of Nations (1994); Paitaridis and Tsoulfidis, "The Growth of Unproductive Activities, the Rate of Profit, and the Phase-Change of the U.S. Economy," Review of Radical Political Economics (2012), covering 1964 to 2007. The general and net rates of profit, and the authors' attribution of the gap between them to the costs of unproductive activity, are in Paitaridis and Tsoulfidis, Review of Radical Political

rising rate of exploitation is the longest-running counteracting tendency, and it has two limits. The first is arithmetic: surplus labor is the working day less the hours that reproduce the worker, so each further cut in those hours adds less. Cutting necessary labor from four hours to two adds two hours of surplus, and cutting it from one hour to a half adds half an hour. At the limit the whole day is surplus, and the rate of profit can be no higher than living labor over constant capital, a ceiling that falls as the build-out raises constant capital against the labor employed, whatever the wage.[345] The second limit is realization: the more of the product is surplus, the less of it wages can buy back, and the rest must be bought by investment, by the rich, by the state's deficit, or abroad.

If automation eventually replaces human labor throughout production, maintenance and the reproduction of the machines themselves, the problem changes. The route through a cheaper bundle does not reopen. It ends, because the robot that makes the bundle with no labor in it makes everything else the same way, and where no labor is employed no surplus value is produced at any rate of exploitation. Relative surplus value has a limit, and the limit is the abolition of the surplus it was raising. When labor becomes structurally unnecessary, the source of profit collapses, and with the wage bill the demand for the commodities collapses beside it. The industrial arm has worked for 40 years, and the humanoid and the general agent may yet. A machine that works multiplies output and adds no value, which is the falling rate for a society that must validate its machines in profit and a plain gain for one that validates them by plan.

The AI build-out assumes you can build the largest "battery" in human history, and that it can reproduce itself, maintaining and building itself or copies of itself. Trillions of dollars of constant capital in data centers, chips, electricity generation, and cooling run the system, ideally without any workers who would, in the older arrangement, be the source of value that both recharges those machine batteries through maintenance and uses them to force-multiply their own labor. That is the final capability test. The promise of AGI, artificial general intelligence able to do most of the work people do, becomes the promise to keep accumulating constant capital infinitely, while abolishing variable capital along with the social relation through which capitalism has historically functioned. Each earlier transition renewed capitalism by drawing more of the world into the wage relation, and this promise runs the other way.

Token prices

Meanwhile AI is running another form of the first-adopter case in public. Each frontier release is the first adopter: more output per compute-hour than anyone else has, still sold at last quarter's price. Within months the rivals match the output, and the price per text token, a small unit of text the model processes, falls toward the cost of the compute consumed and then through it. The competitors price the token as if its electricity were its

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Economics 44, no. 2 (2012): 213–33, in the abstract and the discussion of Figures 4, 6 and 7, https://doi.org/10.1177/0486613411423899.

[345] The diminishing increment is Marx's arithmetic in the Grundrisse, Notebook III, and the ceiling is Capital, vol. 3, ch. 15.

cost, and leave the chip, nearly all of what a token costs to make, to be paid by someone else. Inferecon estimated in July 2026 that for an open-weight model run on its owner's own hardware, the capital is 97 cents of every dollar a token costs and the power two, for a full cost near $0.95 per million tokens. The budget tiers of the commercial services sell at $0.06 to $0.30 per million, and the difference is paid by whoever keeps pouring money in to keep the sellers of AI compute solvent.[346] Eventually the premium evaporates, and then the value does.

What remains is more than a trillion dollars of constant capital laid down by the four largest hyperscalers since 2023, transferring its cost into a product sold for less than that cost. On the production side the variable capital is too small to carry it, and on the other side the customers cannot find the productivity that would pay for it. A token price chart falling through the full cost of compute draws the pressure on the capital as a line. The full cost of a token is the electricity it burns plus its share of everything built and borrowed for before it could burn: the chip, the building, the cooling and power around the chip, the interest on the debt that paid for them, and the wear that running adds.

A sale above the full-cost price pays for all of those expenses. Below it, revenue pays for electricity first, leaving only the remainder to service debt and recover the investment. Selling more tokens or running the equipment harder helps only if each additional sale leaves such a remainder. Harder running also brings maintenance and wear sooner. If competition drives the selling price down to the electricity cost alone, no increase in volume leaves money to repay the debt.

The costs themselves can rise before the promised savings arrive, because the spending reaches physical bottlenecks. Bloomberg's October account describes shortages of transformers and turbines as well as chips, so raising more money can bid up prices while factories and power connections are still being built.[347] [348]Efficiency, utilization and caching

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[346] Inferecon, "What a Token Actually Costs," July 21, 2026: a levelized cost of inference of $0.95 per million tokens for a self-hosted open-weight model, capital 97%, electricity 2%, cooling 1%; Introl, "Inference Unit Economics," February 9, 2026: budget tiers at $0.06 to $0.30 per million tokens, mid tiers at $0.55 to $15, frontier at $15 to $75; a 2026 survey of token pricing (arXiv 2603.21690) on providers with excess capacity subsidizing inference below cost to win share.

[347] Bloomberg. Businessweek Daily, interview with Lynn Doan and Ian King on data-center costs. October 12, 2026. Author-held transcript; matching episode listing: https://www.marketscreener.com/news/the-staggering-costs-of-a-single-data-center-from-land-to-chips-ce785ddddb89f723. International Energy Agency. "Key Questions on Energy and AI." Executive summary, 2026. https://www.iea.org/reports/key-questions-on-energy-and-ai/executive-summary Interview, 3:31–4:08 and 7:21–7:56; the IEA discusses power bottlenecks and possible supply and efficiency responses.

[348] Board of Governors of the Federal Reserve System. "Minutes of the Federal Open Market Committee, September 15–16, 2026." Federal Reserve, October 7, 2026. https://www.federalreserve.gov/monetarypolicy/fomcminutes20260916.htm

can cut the electricity used per task, and the pressure depends on whether those savings outrun falling selling prices and the cost of capital. Running the machines harder spreads their fixed costs over more tasks, but also uses power and wears the equipment. The investment works only if those additional sales cover the costs that remain.

The depreciation schedules show how quickly the investment must earn enough to cover the wearing out or obsolescence of its assets. BCA Research's Peter Berezin calculates hyperscalers will carry over $2.5 trillion in AI assets by 2030. At typical 20% depreciation rates, the cautious case, that produces approximately $500 billion of depreciation a year by 2030, more than the $390 billion the four together earned in all of 2025.[349] The comparison is rough: a charge projected for 2030 is set against a profit from 2025 that already had its own depreciation deducted. What the builders are doing to the schedules confirms the direction. Microsoft will stretch the booked life of its data-center buildings from 15 to 25 years in fiscal 2027, a change that also moves future leases out of the capital spending it reports. A chip not yet switched on is on no schedule at all: Alphabet carried $78.6 billion of assets not yet in service at the end of 2025, against $50.6 billion a year before. The charge can be moved in the accounts. The chip ages at the same rate either way.[350][351]

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[349] Calendar-2025 GAAP net income: Alphabet, Form 10-K for 2025, filed February 5, 2026, $132.2 billion; Amazon.com, fourth-quarter results, February 5, 2026, $77.7 billion; Meta Platforms, fourth-quarter and full-year results, January 28, 2026, $60.5 billion. Microsoft's calendar-year total of $119.3 billion combines its fiscal-2025 third- and fourth-quarter and fiscal-2026 first- and second-quarter earnings releases (April 30, July 30 and October 29, 2025, and January 28, 2026). Together, about $390 billion.

[350] Alphabet Inc., Form 10-K for 2025, "Supplemental Financial Statement Information," Schedule of Property and Equipment (assets not yet in service, $78,592 million against $50,597 million a year earlier), https://www.sec.gov/Archives/edgar/data/1652044/000165204426000018/R36.htm; Bloomberg, September 10, 2026, on Microsoft's capacity, https://bloomberg.com/news/features/2026-09-10/microsoft-ai-focused-data-center-plan-to-add-26-gigawatts-of-compute and copy at https://www.investing.com/news/stock-market-news/microsoft-plans-38-gigawatts-of-data-center-capacity-by-2032-bloomberg-news-reports-4897030.

[351] Microsoft, fourth-quarter fiscal 2026 earnings call, July 29, 2026 (Amy Hood: outside the useful-life change, calendar 2026 capex expectations unchanged; a minimal benefit to fiscal 2027 operating income); CFO Dive and Benzinga, July 30, 2026; lease commitments after 2027 of $411.1 billion (Data Center Dynamics, on the fiscal 2026 annual report). Hood on the call: "more of our future data center leases will shift from finance leases to operating leases as a result of this update," and "Finance leases are included in capital expenditures, while operating leases are not"; Hood gives about $175 billion directly on the call; CFO Dive also reports it, with Morningstar analyst Dan Romanoff attributing the drop to the lease shift. Official earnings-call transcript: https://www.microsoft.com/en-us/investor/events/fy-2026/earnings-fy-2026-q4

The loop

Against the $1.1 trillion the four hyperscalers laid down from 2023 through June 2026, with $725 billion guided for this year alone,[352] no filing attributes any earnings to the AI assets themselves. At best the return is unread, at worst it is a shunt: a closed loop the economy's heart now pumps blood into that returns to the heart without reaching anything that needs it. The heart monitor reads a strong pulse. On the count of David Sacks, the former White House adviser on AI and an advocate of the build-out, AI investment supplied 75% of the growth in GDP in the first quarter of 2026, and the build-out's firms make up a third of the index.[353] That is a contribution to growth measured as the money is spent, and it says nothing yet about the return the assets will earn. Spending can support the companies supplying the build-out even while household finances weaken.

The next question is how much demand comes from customers outside the firms financing one another.

Part of the buildout's recorded demand is capital returning to the firms that advanced it, supporting sales before the investment has earned a return. Consider the loop between Google, Anthropic and Broadcom. Google has invested in Anthropic and in April announced a further commitment of up to $40 billion, of which $30 billion depended on performance targets. Anthropic uses Google's financing in part to rent computing on Google's own chips

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[352] The scale: on the Census construction-spending series, private data-center construction ran at an annualized $50.7 billion in April 2026 on MarketWatch's report of the Census release (Steve Goldstein, June 2, 2026, copy at https://www.itiger.com/news/2640039943, and Census, Monthly Construction Spending, April 2026, https://www.census.gov/construction/c30/pdf/pr202604.pdf); AI infrastructure spending 1.6% of output in 2024 and a projected 2.8% by 2030 against the railroads' peak near 6% (Tunguz, November 2025, updated September 2026); Brookings' estimate of $10.3 trillion from 2025 to 2032, 3.6% of output a year, as reported and not opened, https://www.brookings.edu/articles/financing-the-ai-buildout/. In the same release, private data-center construction ran above public construction in the transportation category, $49.9 billion, a category that excludes highways and streets at $149.6 billion: Associated Builders and Contractors, June 1, 2026, via BDC Network, https://www.bdcnetwork.com/market-data/article/55381255/nonresidential-construction-spending-rises-slightly-in-april-2026-backed-by-public-sector-strength, and Census, Monthly Construction Spending, April 2026, table 1.

[353] S&P Dow Jones Indices for the index share. The first-quarter growth share is David Sacks's figure, not the bank's: Sacks, post on X, May 3, 2026, as reported by Benzinga via Yahoo Finance, May 5, 2026 (AI investment about 75% of first-quarter GDP growth), https://finance.yahoo.com/economy/articles/david-sacks-says-ai-could-220110765.html. Sacks, formerly the White House adviser on AI and crypto, is an advocate of the build-out. The Morgan Stanley report he cited forecast capital spending by Amazon, Alphabet, Meta, Microsoft and Oracle of about $805 billion in 2026 and $1.116 trillion in 2027 (Morgan Stanley Research, exhibit citing its note of April 30, 2026, "Internet: GOOGL, AMZN, and META Surprises and Learnings").

in Google's data centers. Google pays Broadcom to develop those chips, its tensor processing units (TPUs), designed for AI workloads and fabricated by TSMC, and installs them in its data centers. Anthropic's spending, financed in part by Google, is then booked as Google Cloud revenue growth. The equity is financing on the laboratory's books, and the spend is revenue on the cloud's when it is recognized. Google's own investment comes back to Google as "third-party revenue", while its equity stake is recognized as a Google asset at the same time.[354]

The Information's documentation shows that 50% of all remaining performance obligations at Microsoft, Amazon, and Google, their contracted revenue for services still to be delivered, are owed between them by OpenAI and Anthropic, two unprofitable companies funded by the hyperscalers themselves.[355] In this closed circuit the seller helps finance the customer who then buys its services: investment dollars from other profitable lines go into a loop that loses money on a future promise, and the loss is booked as growth. The chips and the labor in the fabs are real. The dependence examined here is the share of purchases financed by the firms that book them as sales. Finance builds on this subsidized demand, turning the same transactions into successive layers of financial claims. In this circuit the surest money is the toll: the chipmaker is paid at delivery and the lender is paid first.

The central bankers' own bank has described the financing behind it. The Bank for International Settlements, in a bulletin of January 7, 2026 and its quarterly review of March 16, finds the build-out moving from paying its way out of operating cash flow to borrowing. Hyperscaler bond issuance passed $100 billion in 2025, and private credit funds, which make loans using capital raised from investors, lent more than $40 billion to AI companies that year. Some of the borrowing is being moved off the balance sheet into vehicles, separately organized borrowers backed by bank funding lines or by their sponsors. The January bulletin names the circular financing inside the AI ecosystem among its concerns and, as of January, rates the risk to financial stability as moderate. It makes the boom's

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[354] Reuters, "Google to Invest up to $40 Billion in AI Rival Anthropic," April 24, 2026: Anthropic described $10 billion committed immediately and a further $30 billion conditional on performance targets, https://www.investing.com/news/stock-market-news/google-plans-to-invest-up-to-40-billion-in-anthropic-bloomberg-news-reports-4636417. On the computing purchases, Reuters, "Anthropic Commits to Spending $200 Billion on Google's Cloud and Chips, the Information Reports," May 5, 2026.

[355] The Information, May 5, 2026, as reported by Reuters (Disha Mishra) the same day: contracts involving Anthropic and OpenAI account for more than half of the $2 trillion of backlog at the major cloud providers, among them Amazon Web Services, Microsoft Azure and Google Cloud, copy at https://finance.yahoo.com/sectors/technology/articles/anthropic-commits-spending-200-billion-204952501.html and https://www.thestandard.com.hk/finance/article/331210/Anthropic-commits-to-spending-US200-billion-on-Googles-cloud-and-chips-the-Information-reports. The same report put Anthropic's commitment to Google at $200 billion over five years, more than 40% of the backlog Google had disclosed the week before.

survival depend on the AI firms meeting the earnings expected of them. Lenders, it observes, price these loans like any other while equity prices imply outsized returns, so one side of the market may have the risk wrong.[356]

The TPUs themselves are real commodities. Workers in TSMC's fabs make the units Google buys, and that is M-C-M' in the classical sense, with real surplus value extracted from real labor: the labor and machines cost the fab's owners less, on an ongoing basis, than the chips sell for. But Volume III catches structural problems even at this upstream level.

The organic composition of capital, the balance between investment in machinery and materials and spending on human labor, is at an extreme here. In April 2024, TSMC put its planned investment in three leading-edge Arizona fabs at more than $65 billion. Its operating margin rose from 49.6% in the second quarter of 2025 to 60.3% in the second quarter of 2026. These margins may include, beyond the surplus its workers produce, a premium from scarce technical capability at the leading chip nodes: a monopoly rent, the extra income protected by an advantage that is difficult to reproduce.[357]

Such upstream margins are coupled to the loop: much of TSMC's leading-node demand comes from the same hyperscaler capital that circulates between the AI laboratories and their infrastructure suppliers. The loop also bids up the price of its own means of

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[356] Aldasoro, Doerr and Rees, "Financing the AI Boom: From Cash Flows to Debt," BIS Bulletin 120, January 7, 2026, pp. 4 to 5 and n. 5 (originations, outstanding loans, circular financing, the loan spreads against equity valuations), https://www.bis.org/publ/bisbull120.pdf; BIS Quarterly Review, March 16, 2026, box on the financing of AI infrastructure (bond issuance, the off-balance-sheet vehicles), https://www.bis.org/publications/qr-202603/markets-recalibrate-amid-shifting-currents. The bulletin puts private credit lending to AI-related companies at about $3 billion in 2010, against more than $40 billion in 2025, and the loans outstanding at over $200 billion. For a subsequent model of the investment race, see Phurichai Rungcharoenkitkul, "The AI Investment Race," BIS Working Papers 1367, July 2026, pp. 1–4, https://www.bis.org/publications/working-paper-1367-ai-investment-race.pdf. Competition for dominant market positions induces overbuilding in the model; debt and circular stakes spread losses when revenues disappoint. Its calibrated results depend on the model's assumptions and are not observed measurements of excess capacity. The paper expresses the author's views.

[357] TSMC, announcement of a third leading-edge fab in Phoenix, April 8, 2024, https://pr.tsmc.com/english/news/3122 (more than $65 billion planned for three Arizona fabs). TSMC, Second Quarter 2026 Earnings Conference presentation, July 16, 2026, slide 4, https://www.sec.gov/Archives/edgar/data/1046179/000104617926000451/a2q26presentatione.htm (operating margins of 49.6% in Q2 2025 and 60.3% in Q2 2026); earnings release, p. 1, https://investor.tsmc.com/english/encrypt/files/encrypt_file/reports/2026-07/a80d7933be643644081584087731f73b22ea5a2c/2Q26%20EarningsRelease.pdf The site budget and quarterly margin measure different things. The monopoly-rent explanation and the margin without that advantage remain this work's hypotheses.

production. Microsoft attributed roughly $25 billion of its first-quarter guidance of $190 billion to dearer memory and components.[358] In August Nvidia's largest customers were told that servers shipped early next year would cost more than 15% more in many cases, because memory prices had soared on the build-out's own orders. Each dollar of capacity costs more than the last and needs more borrowing, the rising cost of constant capital in its most literal form.[359] Nvidia's finance chief, Colette Kress, said on its August earnings call that the memory shortage is largely a result of the build-out itself, and that its cost took Nvidia's own gross margin from 75% toward a trough of 71 to 72%.[360] A new memory fab takes three years or more to build,[361] so the scarcity the build-out creates outlasts the orders that created it.

The loop shows in the buyers' own accounts. Microsoft's AI revenue run rate, a recent pace of revenue multiplied out to a full year, was roughly $37 billion in late April 2026, and approximately 70% of it, on the technology writer Om Malik's inference of May 1, came from a single unprofitable customer, OpenAI.[362] Amazon's, disclosed in April, was roughly

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[358] Microsoft, third-quarter fiscal 2026 earnings call, April 29, 2026 (Amy Hood: for calendar 2026, "roughly $190 billion in capital expenditures," including "approximately $25 billion from the impact of higher component pricing"), https://www.microsoft.com/en-us/investor/events/fy-2026/earnings-fy-2026-q3.

[359] Bloomberg, August 22, 2026, via Reuters and the South China Morning Post, https://bloomberg.com/news/articles/2026-08-22/nvidia-customers-notified-about-ai-related-price-hikes-above-15; The Information on increases near 17%, as reported, https://www.theinformation.com/articles/nvidia-ai-chip-prices-rise-17-server-makers-tell-customers.

[360] Nvidia earnings call, August 26, 2026, as reported by fnnews and Implicator; Bloomberg Radio, "Micron Forecast Tops Estimates on Booming AI Memory Demand," with Jake Silverman of Bloomberg Intelligence, September 30, 2026, https://www.youtube.com/watch?v=qS8WJo9RavE, at 5:05 to 5:35, on the Chinese makers: CXMT and YMTC expanding capacity quickly, their products not yet as capable as their peers', restrictions on imported chipmaking equipment holding them back, and the risk of oversupply if their output grows.

[361] The fab lead time and the deposits: Micron, Form 10-Q for the quarter ended May 28, 2026: about $22 billion of customer deposits and related commitments, some $18 billion of it in cash, and a Boise fab whose construction began in October 2023 with first DRAM output expected in mid-2027, https://www.sec.gov/Archives/edgar/data/0000723125/000072312526000015/mu-20260528.htm.

[362] Microsoft, fiscal third-quarter results, April 29, 2026 ($37 billion AI run rate, up 123%); the 70% OpenAI share is Om Malik's inference from the Copilot seat count and Azure consumption (May 1, 2026), not a disclosure; OpenAI-related commitments were about 45% of the $625 billion commercial backlog in January, and the backlog reached $678 billion in July. Amazon's AI run rate of about $15 billion was disclosed in Andy Jassy's letter

$15 billion, and on an outside estimate about 80% of it came from one client, Anthropic, itself financed by Amazon's own equity investment. Concentration on that scale means dependence on a very few buyers, some of them financed by the seller itself.[363] The second-quarter reports of 2026 show what carrying them costs the cash line: revenue at Microsoft, Amazon and Meta grew by roughly 20 to 30%, while Meta's free cash flow fell 91% and Amazon's and Alphabet's turned negative.[364] The buildout's revenue is substantially the buildout's own spending returning through its two principal tenants.

Reported profit can rise when an investment is marked up, with no sale made and no dollar received from a customer, and the income statements of Amazon and Alphabet show it. In the second quarter of 2026, $53.4 billion of Amazon's $80.9 billion in pre-tax income, roughly two thirds, was an unrealized mark on its Anthropic stake.[365] Alphabet's $98 billion of other income, mostly unrealized gains on its equity securities, was 71% of its $139 billion of pretax income.[366] That is fictitious-capital appreciation, booked as earnings. The

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to shareholders, April 2026.

[363] Ed Zitron, "Don't Look Up," Where's Your Ed At, August 11, 2026, https://wheresyoured.at/dont-look-up, on analyst notes from Wells Fargo, Barclays and UBS (70% or more of the AI revenue of Microsoft, Google and Amazon from OpenAI or Anthropic; 73% or more at Amazon, per Barclays).

[364] The second quarter of 2026: Microsoft's revenue up 18% to $90 billion (Xinhua via The Star, July 30, 2026, https://www.thestar.com.my/news/world/2026/07/30/microsoft-q4-revenue-rises-18-pct); Amazon's net sales up 20% to $200.6 billion and its free cash flow an outflow of $7.6 billion for the trailing twelve months (Amazon.com, "Amazon.com Announces Second Quarter Results," July 30, 2026, https://www.nasdaq.com/press-release/amazoncom-announces-second-quarter-results-2026-07-30); Meta's revenue up 28% to $60.8 billion and its free cash flow $784 million against $8.55 billion a year earlier (Reuters, July 30, 2026, copy at https://www.thestandard.com.hk/innovation/article/338640/Metas-Q2-free-cash-flow-drops-91-percent-as-Zuckerberg-doubles-down-on-AI-spending); Alphabet's free cash flow minus $5.9 billion, its first negative quarter, on capital spending of $44.9 billion (Luke James, Tom's Hardware, July 28, 2026, https://www.tomshardware.com/tech-industry/big-tech/alphabet-goes-cash-flow-negative-for-the-first-time-as-ai-capex-doubles-to-44-9-billion-in-a-single-quarter).

[365] Amazon, Form 10-Q for the quarter ended June 30, 2026: other income (expense), net, of $53.4 billion, about $50.5 billion of it upward adjustments for observable changes in price to private-company stakes, primarily the nonvoting preferred stock in the laboratory, the remainder other securities and warrant gains and foreign exchange, with no reclassification in the quarter (the $4.5 billion reclassification of the converted notes is the first half's, from the first quarter), against pretax income of $80.9 billion, so the line is 66% and the preferred-stock adjustment alone 62%.

[366] Alphabet, second-quarter release of July 22, 2026 and Form 10-Q (other income a net gain of $98.0 billion, primarily net unrealized gains on equity securities from SpaceX and a

index is a separate question: take the two companies out of the S&P 500 and its 47% second-quarter earnings growth falls to 29% on FactSet's July 31 count.[367] That measures how much of the quarter rests on two companies, whatever the source of their income.

The year's profits came from technology and energy. Domestic corporate profits rose $738 billion in the year to mid-2026, 17.7%, to $4.4 trillion. Finance added a quarter of that on the stock market's rise, and of the rest nearly two thirds came from two sectors: technology, the build-out's, with 39%, and energy, riding the war's prices, with 24%. The profit boom is the war and the machine, and a turn in either takes the rate of profit with it.[368] The build-out is paid for by the rents of the last technology, search and the advertising that sells to the consumer. That is why Oracle, the one builder without an advertising or commerce stream of that kind, is the one whose credit-default swaps, the cost of insuring against its default, the market now prices highest. It is also why the consumer the build-out squeezes is the consumer whose attention pays for it.[369]

The loop can now be read in a single laboratory's accounts. Anthropic's confidential prospectus, as reported in September, shows at least $518 billion of compute and infrastructure commitments over roughly a decade, about 80% of them non-cancelable or payable regardless of use, against $4.6 billion of 2025 revenue, nearly half of it sold

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private company; operating income $40.8 billion; net income $112.1 billion; $9.11 a share against $2.85 without the gain; the SpaceX stake near $94 billion from about $1 billion in 2015, most of it restricted from sale). With the gain, Alphabet's operating income of $40.8 billion became net income of $112.1 billion.

[367] FactSet, Earnings Insight, July 24 and July 31, 2026 (excluding Alphabet, 37.9% to 25.9%; excluding Alphabet and Amazon, 47.4% to 28.8%); Ananya Gairola, Benzinga, August 10, 2026, reporting Ross Gerber's citation of Wall Street Journal/FactSet data (the two companies 71% of the dollar increase in blended earnings since July), https://www.benzinga.com/markets/tech/26/08/61065241/ross-gerber-alphabet-amazon-sp-500-earnings-growth.

[368] Michael Roberts, "Labour's share", October 1, 2026, from the national accounts (FRED, BEA corporate profits by industry): finance $185 billion of the increase, energy $135 billion, technology $214 billion, https://thenextrecession.wordpress.com/2026/10/01/labours-share-2/.

[369] The Wall Street Journal's observation and Oracle's swaps as discussed on Odd Lots, late September 2026 (not opened at the Journal), copy at https://bloomberg.com/news/videos/2026-10-01/odd-lots-is-the-ai-trade-fed-rate-proof-video.

through the cloud marketplaces of Amazon and Google, which also sell it compute.[370] The commitments are the other side of the leases the builders have signed and not yet begun.[371]

Anthropic does generate real third-party enterprise revenue. By April 6, Anthropic reported more than 1,000 enterprise customers spending over $1 million on an annualized basis, double its February count.[372] Its headline run rate extends a recent sales pace over a hypothetical year. Customers are free to spend less next month, while the laboratory remains bound by contracts signed to serve expected future demand.[373]

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[370] Reuters (Echo Wang, with Krystal Hu on September 29), September 28 and 29, 2026, copies at https://ca.finance.yahoo.com/news/exclusive-anthropics-ipo-prospectus-shows-232310591.html and https://wtaq.com/2026/09/29/exclusive-anthropic-ipo-prospectus-lays-bare-deep-dependence-on-big-tech-partners/, (the prospectus: revenue of nearly $4.6 billion; an operating loss of $8.06 billion; a net loss near $42 billion, of which about $34 billion a non-cash charge on financing that may convert to shares; 47% of 2025 revenue, about $2.16 billion, sold through the cloud marketplaces of Amazon and Google, the platforms' cut, about $351 million on a Reuters analysis, booked as a marketing cost; two customers near a quarter; about $518 billion of future commitments, not one year's spending), as carried by CNBC, TechCrunch, Fortune and Investing.com.

[371] Anthropic's prospectus, as reported by Reuters (Echo Wang, with Krystal Hu and Sabrina Valle), September 28 and 29, 2026: revenue of nearly $4.6 billion in 2025, 47% of it, about $2.16 billion, sold through the cloud marketplaces of Amazon and Google, and nearly a quarter from two customers; at least $518 billion of commitments over a decade with six partners, about 80% of them non-cancelable or payable regardless of usage. Copies at https://ca.finance.yahoo.com/news/exclusive-anthropics-ipo-prospectus-shows-232310591.html and https://www.933thedrive.com/2026/09/29/anthropics-518-billion-ai-buildout-hinges-largely-on-deals-that-cannot-be-canceled-filing-shows/.

[372] Anthropic, "Anthropic raises $30 billion in Series G funding at $380 billion post-money valuation," February 12, 2026, https://www.anthropic.com/news/anthropic-raises-30-billion-series-g-funding-380-billion-post-money-valuation (eight Fortune 10 customers; Claude Code run-rate revenue above $2.5 billion after its May 2025 public launch). Anthropic, "Anthropic expands partnership with Google and Broadcom for multiple gigawatts of next-generation compute," April 6, 2026, https://www.anthropic.com/news/google-broadcom-partnership-compute (more than 1,000 customers spending above $1 million on an annualized basis, double the February count in less than two months). These are company-reported annualized rates.

[373] The run-rate method: Reuters Breakingviews (Karen Kwok), March 10, 2026, citing a person familiar with the matter (the last 28 days of consumption sales multiplied by 13, plus monthly subscriptions multiplied by 12), quoted at https://simonwillison.net/2026/May/31/anthropic-run-rate/. Zitron, Ed. "Annualized Enron Rate." Where's Your Ed At, October 13, 2026. https://www.wheresyoured.at/annualized-enron-rate/.

The neocloud layer, the specialist firms that rent out computing capacity, books the circuit's dollars a third time. CoreWeave carried about 35 billion dollars of debt at the end of June, leases aside, and lists as its customers Nvidia, OpenAI, Microsoft and Google on OpenAI's behalf, Anthropic, and Meta: the buildout's own spending arriving as a customer list.[374]

Three layers of claims

Where returns are missing, the credit system enters. Chapters 25 through 32 of Volume III of Marx's *Capital* address what happens when the falling rate of profit closes productive outlets. Capital turns to the credit system as an alternative outlet and produces what Marx called "fictitious capital," running on the formula M-M', money apparently growing directly into more money. Fictitious capital is a claim on future income, such as a loan's interest or a stake's marked-up value, that appears to its holder to expand through financial engineering without passing through commodity production.[375]

The buildout's fictitious capital sits in three layers. The first layer is revenue recognized before cash. Credit sales commonly produce receivables before payment arrives; the concern here is the amount, the length of the payment terms, the concentration of the customers and their dependence on further financing. Nvidia's quarter reported August 26 booked $96.2 billion of revenue and $59.7 billion of net income against $24.1 billion of operating cash flow, in part because receivables rose $22.3 billion in the quarter, on terms the filing puts at 90 days to a year for certain investment-grade customers building data centers. The sale is booked but unpaid: the money is a future claim, and the claim is an asset. The critics have the shape without the accounts: six companies losing money on AI and a seventh, Nvidia, they lose it to, together a third of the index, with the seventh lending them the money they lose to it.[376]

The second layer is future revenue held as backlog: the contracts the two laboratories owe the clouds. The laboratories carry the other side as commitments, Anthropic's $518 billion among them.[377] Nvidia's own supply commitments doubled in a quarter to $279 billion, in

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[374] CoreWeave, second-quarter 2026 results, August 11, 2026, as filed with the SEC (revenue $2.58 billion, up 112%; net loss $626 million, with $640 million of interest expense; backlog $104 billion; debt of $35.07 billion at June 30, leases excluded); the customer list from its filings; S&P Global Ratings, April 9, 2026, outlook revised to positive with the B+ rating affirmed, https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3543327.

[375] Karl Marx, Capital, vol. 3 (1894), chapters 25 and 29, on credit and claims to future income.

[376] Doctorow, interview by Isaac Pound, The Tech Report, Times Radio, September 10, 2026.

[377] The backlog share: The Information, May 5, 2026, as reported by Reuters, copy at https://finance.yahoo.com/sectors/technology/articles/anthropic-commits-

its August quarterly filing, the 10-Q: promises to its suppliers against orders it has not been paid for.[378] Each is a claim on revenue that does not exist yet. Until the service is delivered, contracted revenue is no recognized asset on the seller's balance sheet; it is a disclosed promise, valued and lent against on one book while it is a commitment on another.

The third layer is claims written on other claims and borrowed against. Nvidia's off-balance-sheet guarantees reached $108.5 billion, most of it the SB Energy arrangement for OpenAI.[379] Each layer's value rests on the layer below it, and the bottom layer is demand

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spending-200-billion-204952501.html. Anthropic's commitments: its prospectus, as reported by Reuters (Echo Wang and Sabrina Valle), September 29, 2026 (at least $518 billion over a decade with six partners, about 80% of it non-cancelable or payable regardless of usage), copy at https://www.933thedrive.com/2026/09/29/anthropics-518-billion-ai-buildout-hinges-largely-on-deals-that-cannot-be-canceled-filing-shows/; before the filing, The Information estimated that the compute agreements Anthropic had announced since October 2025, covering at least 14.8 gigawatts, could cost up to $517 billion, mostly over the next decade (Dealroom summary, September 6, 2026), https://dealroom.co/news/info-iclajk-how-anthropic-clinched-517-billion-in-compute-deals-in-11-months/.

[378] The supply commitments: NVIDIA, Form 10-Q for the quarter ended July 26, 2026, https://www.sec.gov/Archives/edgar/data/1045810/000104581026000075/nvda-20260726.htm, as reported by Daniel Sparks, The Motley Fool via Nasdaq, August 27, 2026 ($279 billion against $119 billion a quarter earlier, mostly for memory), https://www.nasdaq.com/articles/nvidias-supply-commitments-more-doubled-279-billion-heres-what-it-does-stock, and by Alexis Dufresne, AI Weekly, September 11, 2026, from SemiAnalysis, https://aiweekly.co/alerts/nvidias-off-balance-sheet-backstops-hit-530b-in-latest-10-q.

[379] NVIDIA, Form 10-Q for the quarter ended July 26, 2026, as reported by The Deep Dive, August 28, 2026: guarantees capped at $105 billion for SB Energy's PORTS-Pike campus in Ohio, about 4.25 gigawatts leased to OpenAI for 20 years, which with $3.5 billion of earlier guarantees for AI cloud partners take the maximum gross exposure to $108.5 billion, https://thedeepdive.ca/nvidia-backstops-openai-lease-to-secure-exclusive-ohio-compute/; NVIDIA, "NVIDIA Guarantees SB Energy's PORTS-Pike Technology Campus in Ohio to Exclusively Host NVIDIA AI Compute," August 17, 2026 (SoftBank and OpenAI the existing investors in SB Energy, NVIDIA adding $1.5 billion), https://investor.nvidia.com/news/press-release-details/2026/NVIDIA-Guarantees-SB-Energys-PORTS-Pike-Technology-Campus-in-Ohio-to-Exclusively-Host-NVIDIA-AI-Compute/default.aspx. Apollo, BlackRock and Goldman Sachs are among the six asset managers, with Blackstone, Brookfield and KKR, that signed memorandums with Nvidia to mobilize more than $500 billion of outside capital for AI infrastructure (REBusiness Online, August 18, 2026, https://rebusinessonline.com/?p=463823); Goldman Sachs also advised SB Energy on the transaction. In SB Energy's draft IPO filing its owners are SoftBank, the controlling shareholder, OpenAI, through warrants worth about $5.5 billion, and Nvidia; Goldman Sachs is one of the five lead managers of the offering, and Citigroup is to provide a credit facility (Gareth Gore, IFR, September 4, 2026),

supported by money circulating between investors and their customers. The successive claims can appear to generate income independently, although their repayment still depends on the same underlying customers. That dependence is the credit problem Marx examines in Chapter 25 of *Capital* Volume III.

Nvidia now says so itself. On the August call its finance chief acknowledged the scale of the support it gives the laboratories and builders that buy its chips, the guarantee of up to $105 billion behind the Ohio lease among it, and said: “We know some will call this circular financing. We see it differently.” The laboratories receiving its support are expected to account for about a quarter of its business next year.[380] The South Sea Company financed its own buyers in 1720, lending them the money to buy its shares, and the scheme collapsed inside the year. What Nvidia’s buyers buy wears out: on the bearish estimate the chips lose their economic life before the debts written on them are paid.

Nvidia’s buyback shows where its rent goes and what it leaves behind. The unpaid receivables halved its operating cash flow in the quarter to July, and five customers owed about seven tenths of all it was owed. In the same quarter it returned $26 billion to its shareholders, more than its free cash flow, and issued $25 billion of notes. At the end of September it raised its repurchase authorization by the largest amount in history, to $235 billion.[381] The sales are real and the margin is 75%. The buyback is a cash-out in the exact sense its accounts show: the holders are paid in cash, partly borrowed, while Nvidia takes its customers’ promises and its own guarantees in exchange. Its senior officers’ bonuses this year are tied to a single measure, revenue, with none for cash or return.[382] Lenin’s chapter on parasitism named the stratum this serves, those who live by receiving interest payments without taking part in production.[383]

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https://ifre.com/equities/2479301/sb-energy-targets-billions-from-ipo-despite-lack-of-facilities-or-experience.

[380] Nvidia, second-quarter fiscal 2027 earnings call, August 26, 2026 (Colette Kress), as reported by fnnews and Implicator, August 27, and The Wealth Advisor; Janus Henderson, “We see it differently” (2026).

[381] NVIDIA, “NVIDIA Announces a $150 Billion Share Repurchase Authorization Increase”, September 28, 2026; NVIDIA’s second-quarter fiscal 2027 results and filing, August 26, 2026, as analyzed by Universal Asset Owners, Beancount, Hudson Labs and Tomasz Tunguz, August 26 to 27, 2026 (operating cash flow $24.1 billion against $50.3 billion, https://www.sec.gov/Archives/edgar/data/1045810/000104581026000073/q2fy27pr.htm and https://www.sec.gov/Archives/edgar/data/1045810/000104581026000075/nvda-20260726.htm; receivables $63.1 billion; days sales outstanding 60 against 45; about $26.0 billion returned; $25.0 billion of notes issued).

[382] The fiscal 2027 variable compensation plan, filed March 6, 2026, as reported by sec-api.

[383] Lenin, Imperialism, the Highest Stage of Capitalism (1917), chapter 8. Plekhanov, quoting Rodbertus: the joint-stock company “excludes the capitalists from any active role

The closest historical precedent for this layered financing structure is the Goldman Sachs Trading Corporation (GSTC) pyramid of 1928 to 1932. GSTC issued at $104 in December 1928, reached $222.50 within two months on its own purchases of its own shares, and fell to $1.75 by 1932, in John Kenneth Galbraith's history of the 1929 crash.[384] A 99% wipeout in three years. GSTC raised money to launch Shenandoah Corporation, which itself raised more money to launch Blue Ridge Corporation, with each layer charging fees, borrowing against company assets, and holding shares of the layer below it. When asset values fell, leverage worked in reverse, the falling prices erasing the small equity cushion beneath each layer's fixed debts, and the entire pyramid was wiped out.

GSTC held claims on enterprises that already existed and claims on itself, layered and leveraged. GSTC financed no new capacity and promised nothing but appreciation, and the utilities and industrials in its portfolio produced independently of the pyramid's claims on them, before the pyramid was built and after it was destroyed. The hyperscaler pyramid is the same structure with a productive promise added, and the addition cuts the wrong way: the promise is what makes the claims sale-able, and the constant capital the claims are written on depreciates whether or not the promise is kept.

This is the arc's fourth autumn, the fourth time a declining center has turned from production to finance, and it contains an anomaly. Autumn capital flees rigidity for liquidity, and this expansion ends in the purchase of maximal rigidity: 20-year power contracts, use-specific silicon, poured concrete. The record shows how expected revenue can support fixed investment before outside demand pays for it: supplier-financed purchases, income from marking up counterparties and financing kept off balance sheets. The buildout can therefore enlarge productive capacity without demonstrating a return on the capital used to finance it. In the historical sequence, financial expansion helped build productive power outside the old center. The AI wager instead seeks a renewed source of returns within it, while buying equipment and raising money internationally. The absence of an earlier recovery of this kind is a reason to examine its conditions, not proof that the effort must be simulation. The supplier-financed purchases show how far the investment still depends on continuing advances against future demand.

The three endings

In Marx's 1857–58 notebooks, published as the *Grundrisse*, the passage known as the "Fragment on Machines" names the end state. Once labor in its direct form has ceased to be the great well-spring of wealth, the theft of alien labor time on which the present wealth is based "appears a miserable foundation in face of this new one." Marx could not have anticipated AGI specifically. He specified where the dynamic would tend.[385]

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in the economic life of society and turns them into drones whose disappearance cannot cause the slightest disorganisation" (Socialism and the Political Struggle, chapter II).

[384] Galbraith, The Great Crash 1929 (1955) and A Short History of Financial Euphoria (1990).

This creates a specific dilemma for the AI build-out. The build-out must somehow preserve wage labor as the dominant form of production to preserve capitalism as we know it, in which case the strongest valuations, those made on abolishing wage labor, cannot self-validate. Whether the architecture then liquidates itself, through the falling rate of profit Marx sets out in Volume III of *Capital*, still depends on the financing and on the returns the build-out actually achieves. If the financing gives out before adequate returns arrive, the layered claims running between Google, Anthropic, Microsoft, OpenAI, and Amazon are exposed as such, and the bubble bursts.

Ending wage labor has a name in Marx too. In *Value, Price and Profit*, his 1865 lectures to the General Council of the International Working Men's Association, Marx named 'the ultimate abolition of the wages system' as the Communist revolutionary horizon. The AGI promise under capitalism reaches for the same end state from the "wrong" end, abolishing the wage system from above through the obsolescence of labor and not through its emancipation from private ownership. The attempt runs on capitalism itself as its fuel, and the fuel may run out before the build is complete. And labor will not forget the gun that was just placed at its head by capital.[386]

Microsoft's internal materials identify a related danger. A September court filing quotes the warning that language models are "a product that destroys its supply chain": they compete with the people and publishers producing the content on which they depend.[387] That warning concerns inputs. Displacement also threatens demand, by reducing the wages and business revenues from which customers pay for AI.

Some analysts describe an intermediate path: slow diffusion that keeps augmenting labor instead of replacing it and validates the capex gradually, at a lower valuation, over a longer horizon. The build-out cannot take this path at its present prices, because its equity valuations are priced on the earnings growth and profit margins that large-scale

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[385] Marx, Karl. Grundrisse: Foundations of the Critique of Political Economy. 1857–58. Translated by Martin Nicolaus. London: Penguin, 1973. Free online text: https://www.marxists.org/archive/marx/works/1857/grundrisse/index.htm Notebook VII, the passage on machines and the general intellect.

[386] Marx, Karl. Value, Price and Profit. 1865. In Marx-Engels Collected Works, vol. 20, 101–49. Moscow: Progress Publishers, 1985. https://www.marxists.org/archive/marx/works/1865/value-price-profit/index.htm Section XIV.

[387] News Plaintiffs' Combined Summary Judgment Brief, In re OpenAI, Inc., Copyright Infringement Litigation, No. 25-md-3143 (S.D.N.Y.), ECF No. 1977–1, filed September 17, 2026, p. 69 (PDF p. 77), quoting Microsoft internal materials (SF1461, SF1467), https://storage.courtlistener.com/recap/gov.uscourts.nysd.640396/gov.uscourts.nysd.640396.1977.1.pdf; Jason Koebler, "'Doom Loop': OpenAI and Microsoft Admits LLMs Are Destroying the Web and Built on Theft," 404 Media, September 17, 2026, https://www.404media.co/doom-loop-openai-and-microsoft-admits-llms-are-destroying-the-web-and-built-on-theft/.

replacement of workers is assumed to deliver. The chips and servers have to return their cost inside an economic life near 36 months on the bearish estimate. OpenAI's chief executive, Sam Altman, conceded the timeline in August: the economy has so much inertia, he said, that everyone had been too ambitious on timelines, and society and the economy would adapt more slowly.[388]

The circuit forbids the gradual path from the inside as well. The labs' survival depends on their hyperscaler patrons' growth narratives, and the growth narratives are contingent on the labs' spend. Operating efficiency, the only path to profitability for OpenAI and Anthropic, works against the circuit. A lab that cuts its spending per task, unless more use keeps its total spending rising, weakens its suppliers' revenue expectations, and with them its patron's growth story, the chip fabs' growth story, and the reason to keep the lab alive. Existing commitments payable regardless of use can delay that effect, and they put the first pressure on the lab, which still pays for the capacity it has contracted. On this work's forecast the gradual path fails, because competitors offering comparable capability at a fraction of the price capture much of any new demand, and the customers who would have to supply it can cut their spending faster than the labs can cut their commitments.

Falling token prices reveal a second mechanism beside the falling rate, one with a name and a date. Marx called it "moral depreciation," the destruction of invested capital by competition before its value can be recovered through use.[389] July supplied the demonstration in two stages. On July 17 the Chinese laboratory Moonshot unveiled Kimi K3, a model whose demonstrations included autonomously designing a functional chip.[390]

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[388] Sam Altman with David Senra, podcast released August 23, 2026 (The Next Web, August 24: the disruption expected after 2023 did not come, "the economy just has so much inertia... I think it means we've all been too ambitious on timelines", the slowness called a positive). Omer Kabir, Calcalist, August 24, 2026 ("society and the economy will adapt more slowly"), https://www.calcalistech.com/ctechnews/article/zja8xb7fz; also quoted by Michael Roberts, September 26, 2026, https://thenextrecession.wordpress.com/2026/09/26/ai-the-biggest-economic-bet-in-us-history/.

[389] Karl Marx, Capital, vol. 1 (1867), chapter 15, section 3(b), on the moral depreciation of machinery.

[390] Moonshot AI, release of July 17, 2026; Reuters, July 17, 2026 (the sell-off in chip stocks deepening at the open), copy at https://www.investing.com/news/stock-market-news/wall-st-opens-lower-as-chip-rout-extends-netflix-slides-4798578; Bloomberg, July 17, 2026, as reported by Jackson Moreland, Briefs Finance, July 17 (the Philadelphia Semiconductor Index 20% below its June record and in bear-market territory, after falling as much as 5.7% during the session and closing 1.6% lower), https://www.briefs.co/news/u-s-chip-index-falls-20-from-peak-on-rivalry-with-chinese-ai/; Rashmi Ramesh and Matthew J. Perry, BankInfoSecurity, July 18, 2026 (more than 20% below its late-June peak, with Kimi K3 the clearest trigger), https://www.bankinfosecurity.net/chinas-kimi-k3-triggers-chip-stocks-into-bear-market-a-32263. Oracle's credit-default swaps closed at 198.23 basis points on July 17, the highest

The price event came 10 days later, on July 27, when Moonshot released the full weights, the learned settings needed to run the model, on Hugging Face, a model-sharing platform, under a license that permits commercial use, modification and resale. A capability demonstration can be dismissed as benchmark selection, but weights that any organization with sufficient hardware and expertise can run, and resell, cannot. If artificial intelligence commoditizes on Chinese efficiency curves, the trillion-plus dollars of constant capital deployed for AI is devalued by the cheapening of its own replacement before the question of whether it replaces labor is answered.[391]

A frontier model is constant capital that must be replaced every six to eighteen months. The investor Paul Kedrosky put the dilemma plainly: stop training and the moat goes, leaving a producer of commodity tokens against a Chinese industry that already sets the floor price; keep training and the losses keep pace with the moat.[392][393][394]

The rent the build-out pays for its inputs is being reinvested far more slowly than it is collected. Micron's revenue rose from $37 billion to $133 billion in its fiscal year to September, and of the $90 billion its operations produced it put $27 billion, net, into plant and equipment, less than a third of the cash. The scarcity is being harvested while it lasts,

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on record for the company.

[391] Moonshot AI, Kimi K3 model weights and repository, July 27, 2026, https://huggingface.co/moonshotai/Kimi-K3/commits/main. This is the weights release; the July 17 unveiling and market reaction are documented in the preceding note. Kimi K3 is a 2.8-trillion-parameter mixture-of-experts model. The Kimi K3 License, https://huggingface.co/moonshotai/Kimi-K3/blob/main/LICENSE, permits use, modification, redistribution and sale; a business offering the model as a service with more than $20 million of revenue in any 12 months needs a separate agreement with Moonshot, and commercial products with more than 100 million monthly active users or $20 million of monthly revenue must display the name Kimi K3.

[392] Marx, Capital, vol. 1, chapter 15, on moral depreciation; Paul Kedrosky, SK Ventures, on Prof G Markets, September 30, 2026, https://podcasts.apple.com/ca/podcast/anthropics-financials-revealed-the-losses-are-stunning/id1744631325?i=1000792342368.

[393] Operating expenses of $12.65 billion against revenue of $4.6 billion in 2025, as reported from the prospectus (Reuters, copy at https://ca.finance.yahoo.com/news/exclusive-anthropics-ipo-prospectus-shows-232310591.html; Ed Zitron, Better Offline, September 29, 2026).

[394] Bhat, Sathvi G. "Anthropic Tells Investors It Will Be Profitable for Second Straight Quarter, FT Reports." Reuters, republished by StreetInsider, September 13, 2026. https://www.streetinsider.com/Reuters/Anthropic%2Btells%2Binvestors%2Bit%2Bwill%2Bbe%2Bprofitable%2Bfor%2Bsecond%2Bstraight%2Bquarter,%2BFT%2Breports/27054341.html Reuters attributes the figure to the Financial Times and says it could not independently verify the report. Gross margin is distinct from adjusted operating income and cash flow.

which is what a rent does. The capacity that could end it is being built at the successor's memory makers, the Chinese producer CXMT among them.[395]

Moonshot and CXMT are both flooding the layer below where the incumbent's rent is collected. Moonshot gives away the weights and models that American labs price at a premium as scarce cognition. CXMT adds capacity to a memory market whose pricing power the hyperscaler build-out has created with high demand and low supply, and whose margins the surviving DRAM producers have booked as the return on that buildout.

The same method ran through solar, batteries, electric vehicles and shipbuilding across the prior 15 years. It requires only enough capacity, at adequate quality, to destroy the price at which the initial position was capitalized. TSMC's leading-node monopoly rent is where the AI circuit's visible profits are actually booked and not extracted. The method removes such rents layer by layer, on a timing Washington does not set, and the layers next in line are those now priced as scarce. The series to watch are DRAM and high-bandwidth memory (HBM) contract prices, the frontier price per million tokens, and the leading-node wafer price.

Nvidia has begun to buy the places where the commodity is distributed. In September it agreed to pay $12.9 billion for Hugging Face, the hub where open models, Chinese ones among them, are shared. In the same season the payments company Stripe paid $7.5 billion for OpenRouter. If the model becomes a commodity, the profit may move to whoever owns the market it is traded on, and whether that owner can keep its fee depends on how easily its users can leave. In each of these markets the surest money so far is the toll: the seller paid at delivery, the lender paid first, the owner of the exchange.[396]

The EV instance has now reached the accounts. Ernst & Young's April study counts write-downs near 60 billion euros across the 19 largest carmakers in 2025, on battery joint ventures, shelved plants and cancelled models, and a 59% fall in their combined profit. China exported 2.2 million vehicles in the first quarter of 2026, nearly a million of them

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[395] Micron Technology, Form 8-K, September 30, 2026, exhibit 99.1 (fiscal 2026 revenue $133.19 billion; cost of goods sold $25.68 billion against $22.51 billion; fourth-quarter gross margin 86.8%; operating cash flow $89.68 billion; capital expenditures net $27.37 billion; purchases of available-for-sale securities $34.87 billion; customer contract deposits $12.75 billion); the expansion ceiling as reported (Webull, October 2026); the CHIPS Act restriction to December 9, 2026, as reported by 24/7 Wall Street, August 21, 2026, https://247wallst.com/investing/2026/08/21/cramer-asked-microns-ceo-the-december-9th-question-heres-why-it-could-be-microns-most-important-day-of-2026/; Financial News (Seoul), May 28 and June 20 to 21, 2026.

[396] Nvidia's announcement and Form 8-K, September 2 and 3, 2026 ($12.93 billion; more than 3 million models; Nvidia compute not required on the platform), as reported by Reuters via RTHK and by Semafor, September 3, 2026 (Stripe's $7.5 billion purchase of OpenRouter), copy at https://www.semafor.com/article/09/03/2026/nvidia-to-buy-hugging-face-for-nearly-13-billion.

electric.[397] EY attributes the write-downs mainly to the reversal of electric-car strategies, as demand in the United States and Europe fell short of forecasts. It gives no figure for Chinese competition.[398] On my reading, cheaper Chinese supply is part of the same failure: the constant capital was devalued in part by the layer below it before the product reached the customer. The process has already run once on the industry whose loans the household is still paying.

The horizon in the AI sellers' pitch looks like a world without people in it: job sites without workers, social media without socializing, programming shops without programmers. The same class that funds it is alarmed about falling birth rates. The abolition of variable capital is its aspiration, and it leaves out the contradiction: a world without workers is a world without the value the buildout is priced to capture.

Three outcomes put the investment at risk. The first, inadequate capability, the failure Volume III describes, says the machine cannot think well enough to service the debt based on it thinking well. The second, complete labor replacement, the end state of the *Grundrisse* passage, says the machine thinks so well that value itself ceases to be measurable by labor time. The third, useful capability sold too cheaply to recover costs, Marx's moral depreciation and the case now trading live, says the machine thinks adequately and thinking becomes too cheap to service debt priced on the assumption it would stay expensive. Rules that restrict competition can protect a premium above the competitive price of supplying the capability. All of this is delivered by ordinary capitalist mechanism, with no judgment required about the reality of artificial general intelligence. It is the sharpest version of the circuit's terminal problem: the build-out's own premise, that advanced artificial cognition is about to become abundant, strands the capital betting it would likely remain scarce.

In none of the cases the record shows so far does the machine produce value. Where a person uses the model with judgment, the new value comes, in the account developed here, from living labor; the machine can increase what that labor accomplishes. Where the build-

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[397] China Association of Automobile Manufacturers, data released April 10, 2026, as reported by Gasgoo, April 11 (vehicle exports of 2.226 million in the first quarter, up 56.7%, of which 954,000 new-energy vehicles, battery-electric and plug-in hybrid, up 120%), https://autonews.gasgoo.com/articles/market-industry/chinas-q1-exports-top-222-million-units-nevs-become-core-engine-2042812934202236929.

[398] EY, "Milliardengrab E-Auto: Massiver Gewinneinbruch, Marge auf 10-Jahres-Tiefstand," press release, Stuttgart, April 12, 2026 (the combined profit of the 19 largest carmakers down 59% in 2025, from 143 to 59 billion euros; write-downs and impairments of almost 60 billion euros on battery joint ventures, halted or postponed plants and discontinued models; the average margin down from 6.7% to 2.8%; Geely the only one to raise its profit; demand for electric cars in the United States and Europe well below forecasts, with American tariffs an added burden; Chinese brands gaining in a highly competitive Chinese market), https://www.ey.com/de_de/newsroom/2026/04/ey-automotive-bilanzen-april-2026.

out lands among the cases depends on capability, demand and financing; the hype decides only the size of the bet.

Ruchir Sharma, chair of Rockefeller International, set out the recovery case in Foreign Affairs on October 13. He expects a severe global crash to eliminate weaker firms and leave stronger survivors able to develop useful AI, with productivity gains possibly arriving only after a long delay.[399] A recovery is possible if that AI makes human work more productive at a cost firms can afford. Cheaper models could help customers expand even as the laboratories lose money, and a crash could transfer equipment to owners able to earn a return on its reduced purchase price.[400] Capitalism has recovered through losses of that kind before. The difficult part is sustaining new production while those losses pass through the creditors and customers on whom it depends.

That recovery could preserve wage labor while writing down much of the capital advanced against its replacement. Recovering the original valuations is a harder test. The threatened write-down requires only that a competitor can supply the same capability below the price the debt was underwritten against. The capital can exit at its present price only if three things arrive together: gains large enough to validate the investment, a wage relation that survives them, and financing that lasts. They will not arrive together. Cheaper competing models threaten investments whose expected returns depended on keeping the capability expensive. The successor's laboratories do not need to outspend the American buildout and "win" the frontier race. They need only keep releasing models that show the buildout was massively overpriced. Business Standard reported on July 28 that Jefferies' Chris Wood had warned of "massive capital destruction" in American AI as cheaper Chinese models competed for market share.[401]

The exit a reader from the finance side proposes is to cut the capital expenditure by half, impair the assets and return to the cash flows of search and cloud. First the shares reprice.

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[399] Sharma, Ruchir. "The Global AI Bust: What Will Survive When the Boom Ends." Foreign Affairs, November/December 2026. Published online October 13, 2026. https://www.foreignaffairs.com/united-states/global-ai-bust-ruchir-sharma See "After the Crash," on global losses, consolidation and a potentially long delay before productivity gains.

[400] Brynjolfsson, Erik, Danielle Li, and Lindsey R. Raymond. "Generative AI at Work." Quarterly Journal of Economics 140, no. 2, May 2025. https://doi.org/10.1093/qje/qjae044 Van Nieuwerburgh, Stijn. "The AI Buildout: What Real Estate Investors Need to Underwrite." Columbia Business School, Milstein Center, October 6, 2026. https://business.columbia.edu/milstein-center/ai-buildout-real-estate-investors The study measures task productivity; the underwriting analysis examines operating and financing conditions. Neither establishes an economy-wide recovery.

[401] Puneet Wadhwa, Business Standard, "Chinese AI models can trigger massive capital destruction in US: Chris Wood," July 28, 2026, reporting the GREED & fear newsletter. https://www.business-standard.com/markets/news/chinese-ai-models-can-trigger-massive-capital-destruction-in-us-chris-wood-126072800660_1.html

The seven companies trade at growth multiples on a third of the index because the buildout is the growth, and a company that halves its spending has priced itself at a utility's multiple and told the market the buildout was not. Then the lenders take losses, because the neoclouds and the private-credit wraps hold the chips as collateral against the laboratories' commitments to buy computing capacity. A halved buildout would cut future orders at once, while most existing purchase commitments would remain binding: Anthropic's filing shows about 80% of its commitments non-cancelable or payable regardless of use,[402] and the cancelable remainder, such as its agreement with xAI on 90 days' notice, would go first.[403] The binding contracts would force renegotiation, losses or default, and the chips would be marked toward their salvage value, the losses allocated among equity holders, lenders and guarantors according to their contracts.

Then growth falls. Estimates of the buildout's observed contribution put it at 39 to 75% of measured growth, the upper figure David Sacks's count for the first quarter of 2026.[404] A cut is a separate calculation, a modeled counterfactual. On this work's scenario, which halves the $725 billion of guided 2026 spending from one quarter on and holds prices, replacement spending and policy fixed, the cut would take a percentage point or more off annualized growth, measured at 1.5% in the second quarter of 2026. Prices, other spending and policy would respond in practice, so the figure measures the support the buildout now gives growth, before any collateral losses are counted, and the imported share of the machines is the largest offset.[405] Venture valuations, software shares and the suppliers'

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[402] Anthropic's non-cancelable share and the xAI agreement's 90-day notice: Reuters (Echo Wang and Sabrina Valle), September 29, 2026, copy at https://www.933thedrive.com/2026/09/29/anthropics-518-billion-ai-buildout-hinges-largely-on-deals-that-cannot-be-canceled-filing-shows/.

[403] Reuters (Echo Wang and Sabrina Valle), September 29, 2026, on Anthropic's prospectus (about 80% of at least $518 billion of commitments non-cancelable or payable regardless of usage; the xAI agreement, up to $84.5 billion, largely cancelable on 90 days' notice), copy at https://www.933thedrive.com/2026/09/29/anthropics-518-billion-ai-buildout-hinges-largely-on-deals-that-cannot-be-canceled-filing-shows/.

[404] The 75% at the top of the growth range is David Sacks's figure for AI investment's share of first-quarter 2026 growth: Sacks, post on X, May 3, 2026, as reported by Benzinga via Yahoo Finance, May 5, 2026, https://finance.yahoo.com/economy/articles/david-sacks-says-ai-could-220110765.html. Bureau of Economic Analysis, second-quarter GDP, advance estimate, July 30, 2026, https://www.bea.gov/news/2026/gdp-advance-estimate-2nd-quarter-2026; ING, August 20, 2026 (tech investment 50.2% of year-on-year growth, 36% net of imports).

[405] The arithmetic as a scenario: guided spending of $725 billion for 2026 and a cut of half, $362.5 billion; d the share of the cut that leaves American value added after imports and overseas spending (the equipment is largely imported: Federal Reserve, FEDS Note, July 14, 2026), https://www.federalreserve.gov/econres/notes/feds-notes/technology-shocks-the-ai-boomandthe-u-s-current-account-20260714.html; $31 trillion as a rounded annual scale; a cut beginning in one quarter and persisting takes $90.6 billion × d from a quarterly

equity depend in part on the same expected expansion. A coordinated retreat would reduce orders and investment while forcing creditors and shareholders to recognize losses. An individual company might survive by cutting spending, but cuts across the sector would withdraw the support to growth just measured and transmit losses through its financing. A buyer may eventually make the equipment pay at a lower purchase price. During the interval, however, lenders and customers can lose enough income or capital to prevent otherwise viable production from restarting. That interruption is part of the recovery calculation.

The market is splitting between high margins defended by law, contract and compliance, and mass volume wherever the buyer is free to choose. On OpenRouter, the largest neutral marketplace, Chinese open-weight models went from under 2% of the tokens served in late 2024 to more than half by September 2026.[406] The count leaves out the enterprise work tied to the American clouds, and that defended market is what an enclosure would be built to hold.[407]

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level near $7.75 trillion, a gap of 1.17% × d; from a baseline of 1.5% annualized real growth (Bureau of Economic Analysis, second quarter 2026), with prices, replacement spending and policy held fixed, annualized growth becomes about 100 × [1.015 × (1 − 0.0117 d)^4 − 1], near −0.85% at d = 0.5 and +0.32% at d = 0.25, https://www.bea.gov/news/2026/gdp-advance-estimate-2nd-quarter-2026; phasing the cut changes the result; the shares are sensitivity cases, not measured domestic shares; the collateral, offtake and wealth effects the paragraph names are further channels, not counted here.

[406] CNBC, September 26, 2026, on usage figures the platforms shared: Chinese models took 57% to 67% of OpenRouter's tokens in the week of September 14, the range across its customer groups in the United States, Europe and the Global South (67% in the Global South), and 55% of the tokens sent through Vercel's gateway in August, against 11% in January, https://www.cnbc.com/2026/09/26/china-ai-global-adoption.html, as reported by Digital Today the same day, https://www.digitaltoday.co.kr/en/view/107631/chinas-value-ai-models-speed-global-spread-washington-on-edge. By May 2026 Chinese open-weight models were about 61% of all tokens on OpenRouter on an origin-based count, and near 56% counting identified vendors only (Chris Zeoli, "China's Open-Weight Takeover," Wing VC, June 2026, https://www.wing.vc/content/chinas-open-weight-takeover, which calls OpenRouter the largest neutral router of model traffic). The late-2024 base: Malika Aubakirova and others, "State of AI 2025: 100T Token LLM Usage Study," OpenRouter, December 2025, https://openrouter.ai/state-of-ai (Chinese open-source models at a weekly share as low as 1.2% in late 2024, nearly 30% in some weeks of 2025, and about 13% on average from November 2024 to November 2025). For American companies alone the midsummer count was a weekly peak of 46% (CNBC, July 7, 2026). Token shares measure volume on these gateways, and say nothing of revenue or of the wider market.

[407] OpenRouter model rankings, midsummer 2026; CNBC, July 7, 2026, https://www.cnbc.com/2026/07/07/chinese-ai-models-costs-us-openai-anthropic.html. On the same marketplaces by midsummer 2026, the Chinese open-weight models had been in the lead for 14 consecutive weeks, 9 of the 10 most-used models were Chinese, and their prices ran from a 50th to a 20th of the American frontier's. Cory Doctorow, "Tiktok's

The enclosure the state could build, rules that prevent customers from buying competing models, is the last counter, and its first bricks are already laid. The 2026 defense authorization excludes DeepSeek and specified High-Flyer-linked AI from Pentagon systems and from work on defense contracts, subject to waivers, and requires the defense secretary to consider broader restrictions on AI from other covered companies, including Chinese ones.[408] In July the administration was reported to be weighing Entity List designations, the Commerce Department's export blacklist, for several Chinese laboratories, along with procurement rules and a liability rule for American companies that host Chinese models.[409]

Both the American and Chinese governments already treat a weight file as live ordnance in an economic war. Washington's science and technology policy director publicly accused Moonshot of training on controlled Nvidia silicon and of large-scale distillation, training on the American models' own outputs.[410] Beijing's Ministry of Commerce was reported at the same time to be consulting its own firms on export controls covering models, weights and training data.[411] The consultation cuts both ways: a control on weights would hand Beijing the valve, which so far the laboratories hold.

The profit rate, fictitious capital and moral depreciation now press on the build-out together, and Marx's Volume III specifies how the unwinding proceeds once they do. When participants withdraw their underwriting, the system ceases to reproduce itself.

The unwinding of underwriting has already begun, first in the borrowing. In early May SoftBank cut its margin loan secured on its OpenAI shares from a planned $10 billion to $6 billion, after lenders refused to assign reliable collateral value to those shares at OpenAI's $852 billion valuation. By September the same stake was being financed in the junk market,

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enshittification," Pluralistic, January 21, 2023, https://pluralistic.net/2023/01/21/potemkin-ai/. The application to this market is the author's interpretation.

[408] National Defense Authorization Act for Fiscal Year 2026, Pub. L. No. 119–60, sec. 1532(a)-(c), 139 Stat. 1157–59, signed December 18, 2025, https://www.govinfo.gov/content/pkg/PLAW-119publ60/html/PLAW-119publ60.htm.

[409] Maria Curi, "The Secret Trump Administration Battle to Fight Chinese AI," Axios, July 20, 2026 (the Commerce Department weighing Entity List designations for multiple Chinese AI labs; an executive order under which American companies could host Chinese models only if they guaranteed security and took liability for breaches; procurement rules among the slower tools), https://www.axios.com/2026/07/20/ai-us-china-open-source-kimi.

[410] Reuters. "US Accuses China's Moonshot of Stealing from Anthropic's Fable for Latest AI Model." July 22, 2026. https://www.investing.com/news/economy-news/chinas-moonshot-tapped-anthropics-fable-for-latest-ai-model-official-says-4806427

[411] Reuters. "China Considers Tighter Export Controls on AI Models and Chips, FT Reports." July 21, 2026. https://www.marketscreener.com/news/china-considers-tighter-export-controls-on-ai-models-and-chips-ft-reports-ce7f51dbdf80f42d

through bonds rated below investment grade: SoftBank marketed $11 billion of them near 10%.[412] The commercial record points the same way. OpenAI missed several internal sales targets, on the Wall Street Journal's April report. Its partnership with Microsoft was rewritten that month to end exclusivity and Microsoft's revenue-share payments.[413][414] Anthropic's chief financial officer, Krishna Rao, warned in May that buying too much compute could put the company out of business, while buying too little would leave it unable to serve customers or remain at the frontier.[415] The financing retreats show lenders imposing limits. The product and pricing changes show operators still searching for terms on which the build can pay.

The demand test

The demand test begins where customers outside the financing loop pay for work worth its full cost. Realization of value, in Marx's framework, is the moment a commodity is actually sold: production produces surplus value, and realization converts it into money, the M' in M-C-M'. A factory whose commodities no one buys does not realize the surplus value its labor produced, and the capital invested in production cannot be recovered. The circuit must close on the demand side or it does not close at all, and it has three places to close, each of them compromised: the enterprises that buy the machines, the households that buy what those enterprises make, and the owners whose spending rides on the machines' own valuations. The household was examined in the chapter on credit. The enterprise and the owner follow here.

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[412] Bloomberg, September 21, 2026, via Business Today and The Star (the $10 billion of dollar notes in three tenors and 1 billion euros in two, priced September 24, https://bloomberg.com/news/articles/2026-09-21/softbank-seeks-over-11-billion-in-junk-bond-deal-for-openai-bet; about $15 billion of notes sold in 2026; $25.9 billion of the $40 billion March bridge repaid September 15). The bonds were marketed to fund the third $10 billion tranche of SoftBank's $65 billion commitment for 13% of OpenAI. SoftBank was already the year's largest junk-rated issuer; its 2031 bond yielded 8.2%, from 6.7% in January, and its shares stood a third below June's high. The $852 billion valuation was OpenAI's post-money valuation, counting the new money just invested.

[413] Reuters. "OpenAI falls short of revenue and user targets as it races toward IPO, WSJ reports." April 27, 2026. https://www.investing.com/news/stock-market-news/openai-falls-short-of-revenue-and-user-targets-as-it-races-toward-ipo-wsj-reports-4640229 Reuters attributes the targets and internal concerns to the Journal's sources; OpenAI's CEO and CFO disputed the portrayal of their alignment.

[414] Microsoft. "The Next Phase of the Microsoft–OpenAI Partnership." April 27, 2026. https://blogs.microsoft.com/blog/2026/04/27/the-next-phase-of-the-microsoft-openai-partnership/

[415] O'Shaughnessy, Patrick, with Krishna Rao. "The Cone of Uncertainty." Invest Like the Best, episode 472, May 13, 2026. Colossus. https://colossus.com/episode/the-cone-of-uncertainty/ See 03:14 and 07:31 in the interview.

AI must find enterprise customers, including manufacturers and service businesses as well as software firms. For software sold by the seat, dismissing a worker becomes lost revenue when the employer cancels the license and its billing commitment ends.[416] More work by the remaining users will not replace that revenue at an unchanged price per seat. A vendor can charge separately for automated work, as GitHub now does through metered AI credits alongside subscriptions,[417] but that puts another bill into the customer's calculation of what the labor saving is worth.

The build-out's paying customers are the enterprise software firms that AI is meant to sell to, and investors marked them down on the build-out's promise. The S&P 500 software and services index lost more than 26% from late January to its April low and had recovered by October 6 to stand 5% higher for the year. Their results show nothing yet that a demand failure would show: operating numbers in the summer of 2026 were still good.

A private manufacturer can use the same shared tool to lower its costs. If its competitors adopt it too, prices may fall while production remains profitable at those lower prices. The software owner loses a toll, but making a physical product still takes equipment and materials, and whoever owns those can continue to employ labor for profit. Free tools widen what workers can build together without deciding who controls the rest of the production process.

The objection this invites has a name, Jevons, and whether it applies to the frontier is unproven. The paradox is the possibility that greater efficiency stimulates enough additional use to offset the resource savings, the steam engine's coal and the light bulb's electricity,[418] and it requires the cost, and not only the price, to have fallen. The price cuts of July and August came from customers refusing the price, while the laboratories' total spending rose, with $230 billion raised in six months to cover it.[419] Total spending can rise even as each task becomes cheaper, so the rise does not settle whether the cost per task has fallen. The paradox does apply to the challenger, whose cost has fallen, and the volume it

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[416] GitHub. "Making Changes to Your GitHub Copilot License." GitHub Docs, accessed October 12, 2026. https://docs.github.com/en/copilot/reference/copilot-billing/license-changes Gallup. "AI and Workplace Productivity: What Leaders Need to Know." Workplace, July 27, updated September 30, 2026. https://www.gallup.com/workplace/713063/ai-workplace-productivity.aspx Licence cancellation takes effect at the billing-cycle boundary. Gallup reports frequent use among leaders and managers; that survey does not measure their share of paid seats or vendor revenue.

[417] GitHub. "Updates to GitHub Copilot Billing and Plans." GitHub Changelog, June 1, 2026. https://github.blog/changelog/2026-06-01-updates-to-github-copilot-billing-and-plans/

[418] Jevons, William Stanley. The Coal Question. 2nd ed. London: Macmillan, 1866. Chapter VII, "Of the Economy of Fuel." https://www.econlib.org/library/YPDBooks/Jevons/jvnCQ.html

[419] On the price cuts as demand-driven, the Ramp payment data and the buyers' accounts at Dreamforce (CNBC, September 18, 2026); the funding rounds as reported (Anthropic's Series H and OpenAI's rounds, spring and summer 2026).

releases runs on open weights. A subsidized supersonic shuttle between two cities would be full at 10 pence a seat, and its passengers would stop investing in the railway, and the question that decides its future is who pays the difference when the subsidy ends. The frontier service is the shuttle. The models a user can copy and host elsewhere are the railway. For the frontier the open question is whether the laboratories can recover training, infrastructure and financing costs at the prices customers will pay as the subsidy ends.

At Harvey, which sells AI tools to law firms, heavier use reportedly pushed the direct cost of serving customers above what they paid. Bloomberg reported on September 21 that its gross margin fell below zero after a March agent update, then turned positive again after it adopted open models.[420] Harvey's own research announcement described adapting the open-weight Kimi K3 model to legal work.[421] An application business can therefore recover by reducing what it needs to pay the frontier laboratories. Its survival can weaken their pricing power, while a positive gross margin still leaves overhead and other costs to cover.

There are measured gains as well. In a study of customer-support workers, AI assistance increased issues resolved per hour, with the largest gains among less experienced staff.[422] Palantir's chief technology officer, Shyam Sankar, argues that AI can make additional factory shifts profitable.[423] An employer with enough orders could use the saved time to expand, but the same gain could also permit unchanged output with fewer paid hours. Hiring follows only if the expansion requires it.

A firm can cut payroll and lose knowledge it cannot buy back with another subscription.[424] Ford encountered that problem. In June 2026 its engineering chief said experienced staff had left before their knowledge was transferred into automated systems. Some returned to

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[420] Bloomberg. "Startups Like Harvey Embrace Open Models to Cut Reliance on Anthropic, OpenAI." September 21, 2026. https://www.bloomberg.com/news/articles/2026-09-21/startups-like-harvey-embrace-open-models-to-cut-reliance-on-anthropic-openai (cited through Zitron). Zitron, Ed. "Annualized Enron Rate." Where's Your Ed At, October 13, 2026. https://www.wheresyoured.at/annualized-enron-rate/. The margin sequence is reported through Zitron's quotations from Bloomberg.

[421] Qi, Calvin, Vasudha Rengarajan, Julio Pereyra, Niko Grupen, and Gabe Pereyra. "Harvey Tenet Research Preview." Harvey, August 20, 2026. https://www.harvey.ai/blog/post-training-update-harvey-tenet. The research preview identifies post-training on Kimi K3; it does not independently verify Harvey's company margins.

[422] Brynjolfsson, Erik, Danielle Li, and Lindsey R. Raymond. "Generative AI at Work." Quarterly Journal of Economics 140, no. 2, May 2025. https://doi.org/10.1093/qje/qjae044

[423] Fox Business. "AI Fuels Blue-Collar Productivity Boom across Manufacturing, Palantir Technology Chief Tells Fox Business." Fox Business, December 17, 2025. https://www.foxbusiness.com/technology/ai-fuels-blue-collar-productivity-boom-across-manufacturing-palantir-technology-chief-tells-fox-business Sankar's vendor-reported examples precede the war; they are not an independent estimate of net hiring.

train those systems and younger engineers, while a new software quality-assurance team supplied more of the human work needed to make the technology function.[425] An administrative layer that prevents errors can look dispensable precisely because the errors have not happened. Its removal saves resources only if the resulting delays and rework cost less than the work removed.

Klarna also renewed human recruitment after its chief executive acknowledged in May 2025 that the drive to cut service costs with AI had gone too far.[426] Both cases show damage that required human work to repair, as well as the possibility of repair. A lower wage bill is insufficient evidence of increased productivity.

Where a deployment depends on computing sold below its full cost, ending the subsidy can erase the customer's saving unless efficiency improves enough to cover it. Deployments using cheaper models or hardware already available to the customer may remain economical. Some firms that cut jobs because of AI have already begun rehiring: in a February 2026 survey of 600 human-resources professionals, more than a third said they had already rehired more than half of the roles eliminated for the technology. The forecasters expect more. Gartner predicts that half of the companies that cut customer-service staff because of AI will rehire for the same work under other titles by 2027. Forrester predicts that half of all layoffs attributed to AI will be undone, the jobs returning offshore or at lower wages, which is the wage bill degraded and not the labor removed.[427]

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[424] Doctorow, interview by Isaac Pound, The Tech Report, Times Radio, September 10, 2026, on process knowledge as the intangible the balance sheet omits.

[425] Hawkins, Andrew J. "Ford Had to Hire Back Former Engineers to Fix Mistakes Made by Its Automated Systems." The Verge, June 25, 2026. https://www.theverge.com/transportation/956316/ford-quality-jd-power-ranking-ai-automated-mistakes Naughton, Keith. "Ford Has Been Rehiring Quality Inspectors as AI Falls Short." Bloomberg, republished by Transport Topics, June 25, 2026. https://www.ttnews.com/articles/ford-quality-inspectors-ai The account concerns knowledge transfer, returning veterans and quality assurance, not a count of workers fired specifically for AI and then rehired.

[426] Daly, Charles. "Klarna Slows AI-Driven Job Cuts With Call for Real People." Bloomberg, May 8, 2025. https://news.bloomberglaw.com/artificial-intelligence/klarna-rethinks-ai-cost-cutting-plan-with-call-for-real-people

[427] Gartner, "Gartner Predicts Half of Companies That Cut Customer Service Staff Due to AI Will Rehire by 2027" (February 2, 2026): only 20% of 321 customer-service leaders surveyed in October 2025 had reduced staffing because of AI, and most recent reductions were influenced by broader economic conditions; Forrester, Predictions 2026 ("We expect half of AI-attributed layoffs to be quietly reversed, with jobs returning offshore or at lower wages"), as reported by HCAMag; Careerminds, February 2026 survey of 600 HR professionals (35.6% had already rehired more than half of the roles eliminated for AI, most within six months), as reported.

On the owners

The owners are the third place the circuit has to close. On Goldman Sachs's measure in July 2026, households' stocks passed their real estate as a share of their wealth for the first time since the Second World War. On a separate measure of financial assets alone, which leaves houses out, equities reached a record 48%, above the dot-com peak, and the top tenth of households holds about 87% of them. The wealth effect that now carries consumption is the top decile's, and the business cycle that once ran through the house now runs through the build-out's share prices.[428]

New factory jobs would not settle the demand question by their number alone. The wages and hours they provide have to be compared with the work eliminated, and factory jobs can themselves be automated. Employers may use savings to repay debt or distribute money to owners, whose spending need not replace that of displaced workers. A recovery requires the resulting production and investment to generate enough demand to sustain one another after the full cost of AI is paid.

On the financing

The build-out's answer to its creditors is the railroad, the strongest card it holds and the one Wall Street's own strategists reach for. The bull case runs: 1873 and 1893 vaporized the fictitious capital and bankrupted the builders, and the rails carried real traffic for a century; the belief dies, the use-value endures, and the successor economy inherits the infrastructure at written-down cost. The office market shows how that recovery can work when losses are absorbed over time. The equipment in an AI campus gives its creditors less time on the bearish useful-life estimates, while some leases require payments beyond that estimated life.[429]

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[428] Goldman Sachs, July 23, 2026, https://www.investing.com/news/stock-market-news/equities-surpass-real-estate-as-top-us-wealth-driver-for-first-time-since-ww2-goldman-says-4809235; the Federal Reserve's Financial Accounts, September 11, 2026 (net worth near $196 trillion, https://www.federalreserve.gov/releases/z1/20260911/z1.pdf; equities up about $10.7 trillion in the second quarter), as reported; the distributional accounts on the top tenth's share. Goldman's note, as reported by Reuters on July 23, 2026, compares US households' equity holdings with their real estate and puts equity allocations near 50% of household financial assets, above dot-com levels. The 48% is equities as a share of households' financial assets, a denominator that excludes housing; the comparison with houses is a separate measure of wealth.

[429] Van Nieuwerburgh, Stijn. "The AI Buildout: What Real Estate Investors Need to Underwrite." Columbia Business School, Milstein Center, October 6, 2026. https://business.columbia.edu/milstein-center/ai-buildout-real-estate-investors The comparison depends on asset life and contract terms; a written-down purchase price does not pay future operating costs.

What endures past a crash is the power infrastructure and the shells, the minority of the spend. The successor of the third transition kept the rails the City paid for, because the City's money was spent on American ground. Much of the surviving infrastructure would stay on American soil even though its financing is international. Some equipment could earn a return at a lower purchase price, provided the new owner can secure power and customers before it needs replacement. And the analogy's most careful modern user inverts it: Damodaran's railroad memory is the curse of premature standardization, American rails built early for 25-mile-an-hour trains and never afterward rebuildable for speed. His stated worry for the buildout is discovering in three years that the architecture was built for the wrong product.[430] The question the analogy cannot answer is whether what the early leaders die building is a rail network or a stranded asset.

The industrial-revolution comparison the sellers make cuts both ways. Among the Luddites were skilled framework knitters opposing employers who used wide frames and cheaper labor to sell inferior stockings. Their grievance concerned what those production methods did to the trade and its standards as well as to their wages.[431] The displacement of skilled textile labor nevertheless continued, destroying livelihoods and the knowledge organized around them. The present transition has the form: a knowledge-working class displaced by untrained labor and a machine that produces objects shaped like work. The ending is not yet on the incumbent's books. Whether frontier providers' full costs are falling fast enough to validate their investment remains unproved. The challenger's costs are falling, and the phase in which the machine becomes better is being funded where the incumbent cannot collect on it. What returns is the social question of the 1830s, the poverty of those who live by selling their labor to a market that has found a substitute, and the articulation contest is where that question is being fought.[432]

Before a fund closes its gates there is an earlier stage. It became visible in July, and it has a product name. Through mid-July banks, UBS among them, were circulating proposals for what the trade calls fund finance. The shares of private funds that cannot be sold without testing their marks are placed into special vehicles, bonds are issued against the unmarked equity, and an insurance company writes a loss policy over the majority of the structure, lifting the rating from unrated-or-junk to single-A by signature.[433] That wrap, the insurer's promise to cover specified losses, also cuts the capital an insurance investor must hold

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[430] Aswath Damodaran with Scott Galloway and Ed Elson, "Aswath Damodaran: Big Tech Has No Idea How AI Pays Off," Prof G Markets, August 7, 2026 (1:04:45, https://www.profgmedia.com/p/aswath-damodaran-big-tech-has-no; free cash flow at 6:19, the stakes in the frontier laboratories at 27:10 and 29:34, debt at 50:16; no mention of the war, the strait, oil or geopolitical risk).

[431] Binfield, Kevin, ed. Writings of the Luddites. Baltimore: Johns Hopkins University Press, 2004. https://www.luddite.no/wp-content/uploads/2025/10/Writings_of_the_Luddites.pdf See the framework knitters' declaration of January 1, 1812, pp. 90–91.

[432] Thompson, E. P. The Making of the English Working Class. London: Victor Gollancz, 1963. Chapter 14, "An Army of Redressers."

against the bond, while creating dependence on the insurer's ability to pay. The stated purpose is not disguised. The annuity complex, the retirement savings of the same households already carrying the car loans and the card debt, faces a regulatory capital charge of 30% or more for holding the fund stake directly and 1% or less for single-A paper.[434] The wrap lets the retirement money flow to the trapped equity.

These guarantees resemble the bond insurance strained in 2007 and 2008, and they carry the same correlation bomb: a downgrade of the wrapping insurer, for any reason, downgrades everything it has wrapped in a single stroke, converting a thousand idiosyncratic risks into one systemic one. I read the structure as a way to keep money flowing into trapped fund stakes after organic inflows have stalled. It can arise for other reasons, and the evidence that new money has slowed lies in the withdrawal requests. The system has begun collateralizing its last private buffer, and the gates, when they come, will close on structures that have already been borrowed against. The third quarter ran the test. The four largest semi-liquid credit funds all held to the 5% gate, with requests falling and still two to three times what the gates pay. The Ares fund, which had paid every request in full for five quarters to December 2025, paid 38% of what was asked in September.[435]

Anthropic's proposed initial public offering will test the trade from the other end. On Kedrosky's reading it is less a financing than a distribution, insiders selling to retail buyers and to institutions that buy to flip, and the institutions that must take it have to sell other holdings to make room. In August half a dozen investors told the Financial Times they expected a valuation of $2 trillion or more. A listing at that price would let Amazon and

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[433] Scott Carpenter, Davide Scigliuzzo and Esteban Duarte, "Wall Street Alchemists Tap Insurers to Unfreeze Private Markets," Bloomberg, July 19, 2026 (UBS's pitch of a bond backed by stakes in private credit funds, aiming at an A2 rating from Moody's), copy at https://news.bgov.com/insurance/wall-street-alchemists-tap-insurers-to-unfreeze-private-markets; Khac Phu Nguyen, "UBS Packages $500 Million Private Credit Stakes Into Insured Debt Deal," GuruFocus via Yahoo Finance, April 8, 2026 (stakes in eight funds, an insurer guaranteeing $375 million of the $500 million, the insured portion rated A2), https://finance.yahoo.com/markets/stocks/articles/ubs-packages-500-million-private-153930214.html.

[434] Dechert, "Rated Note Fund Market Update 2026," August 5, 2026 (risk-based capital charges of 30% to 45% for a direct interest in a fund against 0.7% to 1% for notes rated as high as A), https://www.mondaq.com/rated-note-fund-market-update-2026-not-throwing-away-their-shot/1826964.

[435] Reuters, September 24, 2026, on the Ares Strategic Income Fund's filing (13.1% against 14.4%; the 5% cap; net new demand 3% of net asset value); the Financial Times, as reported by Private Equity Wire, September 2026 (Apollo, BlackRock's HPS fund, Blackstone's flagship), copy at https://www.privateequitywire.co.uk/blackrock-private-credit-redemptions-show-signs-of-easing-in-q3/; the fund's tender filings with the SEC (43.1% of requests paid in March 2026, 34.7% in June, 38.2% in September, $515 million on September 25). Third-quarter requests were for 14.7% of shares at Apollo's flagship fund, 13.1% at Ares's, 11.5% at BlackRock's and about 10% at Blackstone's.

Google mark up their stakes again, and the gain would enter their income, lower their price-to-earnings ratios, and help to justify the next round of the spending that returns as the laboratory's revenue.[436]

Beneath the wrap sits the project finance, and it fails by a different mechanism. A data center is financed in tranches of rising size and falling risk tolerance, and later tranches can buy their way in with break clauses: a delay, a power contract that does not close, a turbine that does not arrive, and the lender walks. Where such clauses exist, the contingencies that trigger them, energy prices, grid connection, equipment, are common to many sites, so projects can lose their lenders together, into a buyer's market for their own paper, and finished sites may never be switched on because the ones beside them were not.[437]

The buyer of last resort for all of it was named in August, by the officer doing the placing. Asked how the market absorbs the issuance, hyperscaler, Treasury, British gilt, Japanese government bond, Rick Rieder, BlackRock's chief investment officer for global fixed income, answered with gratitude:[438] a historic demographic is supporting the demand for yield, insurance companies, life insurance, pensions, and if you price assets right, you can place an awful lot. Read plainly: the aging population's deferred wages are the terminal bid for the buildout's paper and the sovereign's alike, two supplies crowding each other in the same queue for the same annuity. Retirees need regular payments, and the insurers and pensions make them from assets that cannot readily be sold. A historic demographic is by definition a stock, and this one is being drawn from both ends at once: from the assets if the paper impairs, and from the payments owed, on the actuarial schedule that turns every accumulating saver into a decumulating one. In 1929 some well-placed speculators escaped before less-informed buyers; institutions also failed.[439] Here the institutions

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[436] Financial Times, August 13, 2026, https://www.ft.com/content/840ac156-af1c-4a82-b260-ae791072fcfa (the backers' expectation of an October listing at $2 trillion or more); Amanda Gerut, Fortune, August 14, 2026 (more than double the $965 billion of the Series H round reported in May), https://fortune.com/2026/08/14/anthropic-valuation-ipo-amazon-trillion-openai/; Bloomberg, May 28, 2026 ($65 billion raised at $965 billion including the new money), copy at https://news.bloomberglaw.com/private-equity/anthropic-raises-at-965-billion-valuation-eclipsing-openai-1.

[437] Doctorow, interview by Isaac Pound, The Tech Report, Times Radio, September 10, 2026, on tranche break clauses and the Gulf sponsors' competing uses for capital.

[438] Rick Rieder, interview with Bloomberg, "BlackRock CIO Talks Job Report, Rates, Bonds", August 7, 2026, copy at https://podcasts.apple.com/us/podcast/blackrock-cio-talks-job-report-rates-bonds/id1690236827?i=1000780889807. The interview aired on Bloomberg Television as "BlackRock's Rieder on Jobs Report, Fed Rates and Bonds," August 7, 2026, https://www.youtube.com/watch?v=JyDPG3OShjY.

[439] Kindleberger, Charles P., and Robert Z. Aliber. Manias, Panics and Crashes: A History of Financial Crises. 7th ed. Basingstoke: Palgrave Macmillan, 2015.

holding everyone's deferred wages are being loaded last, at the top, the inversion the wrap exists to accomplish.

S&P Global cut Oracle to BBB-, the last rung of investment grade, on July 9, saying it had consistently underestimated the capital the AI build-out requires. Oracle's own filing puts the cuts beside the build: 21,000 fewer employees in the year to May, a reduction it attributes to the adoption of AI, and free cash flow of minus $23.7 billion.[440] Roughly half of Oracle's $638 billion in contracted backlog is attributable to a single unprofitable customer, OpenAI, whose ability to pay depends, in S&P's words, on the boom continuing, the models remaining market-leading, and the continued willingness of external capital to arrive.

The agency had described the circuit: OpenAI pays Oracle with money raised on belief in the boom, and Oracle borrows against that receivable to build capacity for OpenAI. The roughly $117 billion of Oracle bonds sitting in the Bloomberg high-grade index make the entire investment-grade market a counterparty to belief. The index rates each bond by the middle of its three agency ratings. Downgrades that carried that middle rating below investment grade would expel the debt into a market a fraction of its size and make Oracle the largest fallen angel in the history of the corporate bond market, a borrower cut from investment grade to speculative grade, which can force funds restricted to investment-grade debt to sell.[441]

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[440] Oracle, Form 10-K for fiscal 2026, filed June 22, 2026 (141,000 full-time employees on May 31 against 162,000 a year earlier, https://www.sec.gov/Archives/edgar/data/1341439/000119312526277521/0001193125-26-277521-index.htm; "the adoption and deployment of AI technologies across our operations have resulted, and may continue to result, in reductions to our workforce"; capital expenditures $55.7 billion against $21.2 billion; free cash flow -$23.7 billion; restructuring $1.8 billion; CNBC and Quartz, June 23) and the fiscal Q1 2027 release for June to August 2026 (cash and securities about $37.1 billion, borrowings about $125.3 billion, about $19.9 billion of new shares), copy at https://www.sec.gov/Archives/edgar/data/1341439/000119312526387905/orcl-ex99_1.htm and copy at https://investor.oracle.com/files/content_files/1q27-pressrelease-September_FINAL.pdf; Business Insider, August and September 2026, via HR Executive, on the September 14 notices, https://www.investing.com/news/stock-market-news/oracle-begins-new-layoff-round-as-ai-spending-increases-debt--report-4899771?ampMode=1. The default swaps closed at 198.23 basis points on July 17. S&P Global projected a free-cash-flow deficit of roughly $42 billion for fiscal 2027, nearly double its prior projection. The 13% is the fall from 162,000 employees to 141,000.

[441] Davide Barbuscia, "Oracle Risks Falling Behind in AI Race as Spending Binge Bites," Bloomberg, July 16, 2026, copy at https://news.bloomberglaw.com/financial-accounting/oracle-risks-falling-behind-in-ai-race-as-spending-binge-bites; Andre Savage, Briefs Finance, July 16, 2026 (about $117 billion of Oracle debt in the Bloomberg US Corporate Bond Index, the second-largest non-financial borrower after Amazon), https://www.briefs.co/news/s-p-downgrades-oracle-s-bond-rating-to-one-notch-above-junk/; CME Group, "Understanding Bloomberg Credit Futures," 2024 (index eligibility set by the middle of the three agency ratings),

The machine's number is growth: the capital spending that the national accounts count as output, the backlog, and the run rate. The thing was a product that customers outside the loop will pay for at its full cost. The number is produced by the seller financing the buyer and by gains marked on stakes that no one has sold. If the price found the thing, the shares would be valued as utilities and the lenders would hold chips at salvage, and so the builders, the lenders and the state all act to prevent it. That is the panic prevented. The suppliers paid at delivery are spared. The retirement saver is loaded last. What is fed in is everyone else's surplus: the advertising rents, the annuities, the Gulf's oil money, the ratepayer's grid. What is consumed is the electrician who would have wired a house, the capital that would have filled a magazine, and the wage of the customer. The build-out needs the household's consumption suppressed to free the resources and the household's consumption intact to realize the return. The new leading industry was one of the old ways out. This one cheapens by removing the people it would need as buyers.

This is wrong if customers outside the financing loop come to pay the full cost of the service, power and replacement included, and a public listing holds its private valuation on money the patrons did not supply.

XVIII. The US Empire Dines at the Heart Attack Grill

On February 28, 2026, the United States initiated the operation that became the war on Iran.[442] Iran continued fighting, and disruption of Gulf production and shipping carried the war's costs into fuel bills, factories and public budgets far beyond the battlefield.

The image that came to mind was a diner in Las Vegas, the Heart Attack Grill on Fremont Street, where the orders are called prescriptions, the customers wear hospital gowns, and the slogan is "taste worth dying for." Customers have had heart attacks at the tables. One regular, who called himself Patient John, suffered a fatal heart attack at the bus stop outside in 2013.[443]

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https://cmegroup.com/articles/2024/understanding-bloomberg-credit-futures.html; Bloomberg, "Ford Becomes Largest Fallen Angel After S&P's Cut to Junk," March 23, 2020, for the record the comparison runs against, https://www.bloomberg.com/news/articles/2020-03-23/ford-cut-by-fitch-as-coronavirus-batters-economy.

[442] U.S. Central Command. Operation Epic Fury Fact Sheet. March 1, 2026. https://www.centcom.mil/Portals/6/Documents/Publications/260301-Fact%20Sheet.pdf

[443] Murtagh, Peter. "Heart Attack Grill Icon Dies — of Heart Attack." Irish Times, February 14, 2013. https://www.irishtimes.com/news/heart-attack-grill-icon-dies-of-heart-attack-1.1251948 John M. Glionna, "Heart Attack Grill's Unofficial Spokesman Dies After Heart Attack," Los Angeles Times, February 13, 2013, https://www.latimes.com/nation/la-xpm-2013-feb-13-la-na-nn-unofficial-spokesman-heart-attack-grill-dies-of-heart-attack-20130213-story.html.

The Iran operation was, structurally, the patient walking into the diner to make a point. The point was: "I'm not sick. Watch what I can still eat." The patient had spent 40 years under increasingly urgent medical advice to reduce the deficit, restore the productive base, repair the alliances before the rivals coordinated. The patient ignored all of it. The patient walked past the doctors, sat down, and ordered the largest thing on the menu.

The escalation against Iran was that order, a sequence the system had executed before in Iraq in 1991, Iraq in 2003 and Libya in 2011, but against a population three to four times larger than 2003 Iraq,[444] with 47 years of preparation to resist.

Iran had been the unfinished business of the unipolar moment since the 1979 revolution removed it from the American security architecture. The intervening decades had produced repeated cycles of containment, sanction, sabotage, assassination, near-war, and stand-down. The 2026 reach was a culmination of those cycles, and would represent uncontested dominance in the world's oil-producing region.

Russia, China and Iran had prepared for a confrontation whose effects would reach well beyond Iran. The record supports the separate preparations; their combination into one strategy is this work's interpretation. In the years before the war, China signed long-term contracts for Qatari and Russian liquefied natural gas (LNG),[445] while Iran rebuilt missile production using Chinese precursors.[446] Iran also gained access to China's BeiDou satellite-navigation system.[447] Later reporting described Russian imagery and cyber support for

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[444] United Nations, Department of Economic and Social Affairs. World Population Prospects 2024. Midyear population estimates and medium projections, Iraq 2003 and Iran 2026, reproduced at https://www.populationpyramid.net/iraq/2003/ and https://statisticstimes.com/demographics/country/iran-population.php Iraq: 26,802,658; Iran: 93,168,497. The ratio is approximately 3.48; Iran's 2026 value is projected.

[445] QatarEnergy. Annual Review 2023, long-term LNG agreements with CNPC and Sinopec. https://www.qatarenergy.qa/en/MediaCenter/Publications/QatarEnergy%20Annual%20Review%202023.pdf The review records CNPC's 2023 agreement and the similar 2022 Sinopec agreement, each for four million tonnes annually over 27 years. NOVATEK. "NOVATEK and Zhejiang Energy Sign Sales and Purchase Agreement on Long-Term LNG Supply." January 11, 2022. https://www.novatek.ru/en/press/releases/archive/index.php?id_4=4825

[446] Reuters. "Ships Loaded with Missile Propellant to Sail from China to Iran, Reports." January 22, 2025. Economic Times republication. https://economictimes.indiatimes.com/news/defence/ships-loaded-with-missile-propellant-to-sail-from-china-to-iran-reports/articleshow/117462723.cms Reuters relays the Financial Times report, based on Western security officials and ship tracking, of Chinese sodium-perchlorate shipments for Iranian missile propellant. This does not establish a joint operational plan.

[447] U.S.–China Economic and Security Review Commission. 2025 Annual Report to Congress, p. 155. https://www.uscc.gov/sites/default/files/2025-11/2025_Annual_Report_to_Congress.pdf

Iran.[448] The diplomatic conditions were an alliance system fractured by tariff wars and unilateral behavior. Once triggered, an Iran war produced consequences far beyond what its instigators intended. The "no limits" declaration of February 4, 2022 came 20 days before Russia's full-scale invasion of Ukraine.[449] Xi's remark to Putin in March 2023, changes the likes of which have not been seen for 100 years and we are the ones driving them,[450] came after both had watched Ukraine restructure Europe's energy market. The excursion Washington announced on February 28 had been prepared for by everyone except Washington.

Two mechanisms govern the war. I call the first the security conundrum. A power that wins a crisis keeps the apparatus that won it, and the apparatus then defines what a crisis is. On my reading, the Soviet apparatus that won in 1945 could not see that its own bomb of 1949 had changed what security required. The second is the reservation-price law. In bargaining, a reservation price is the worst deal a side will accept. In a conflict either side regards as a matter of regime survival, I argue that pressure can raise its minimum acceptable terms instead of lowering them. Escalation intended to bring the enemy to the table can therefore move the table away. The proposed mechanism runs through the German-Soviet war of 1941, in which no terms existed on either side, through Korea and Vietnam under the threat of nuclear escalation, and through Ukraine and the Gulf.

The patient could not perceive that the move no longer functioned under current conditions for multiple reasons, including its own comorbidities.

Soviet deep-operations doctrine, developed in the 1930s in response to the stalemate of the First World War, envisioned simultaneous engagement of the enemy's full economic and military depth through coordinated mechanized breakthroughs. Precision missiles and drones can now strike that economic and military depth without an armored force first breaking through the front line.[451]

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[448] Reuters. "Russia Supplies Iran with Cyber Support, Spy Imagery to Hone Attacks, Ukraine Says." April 7, 2026. Investing.com republication. https://www.investing.com/news/world-news/exclusiverussia-supplies-iran-with-cyber-support-spy-imagery-to-hone-attacks-ukraine-says-4599676 The report attributes the assessment to Ukrainian intelligence and covers imagery and cyber support.

[449] Russian Federation and People's Republic of China. "Joint Statement on International Relations Entering a New Era and Global Sustainable Development." February 4, 2022. English text reproduced by the USC U.S.–China Institute. https://china.usc.edu/node/21199.

[450] Findon, Mary-Kate. "China's Xi Jinping tells Putin 'change is coming' as he departs Moscow." Independent TV, March 22, 2023, video. https://www.the-independent.com/tv/news/russia-putin-war-china-xi-jinping-b2305676.html

[451] Aleksandr Svechin, Strategy (1927); the comparison between deep operations and the present missile campaign is this work's interpretation.

The classical combined-arms armored breakthrough that defined twentieth-century operational art is largely obsolete against modern sensor networks and unmanned precision munitions, and it returns only where one side can deny the other sight. The deep operation has migrated from the breakthrough vehicle to the bypass vehicle. Iran is executing the bypass against Gulf production capacity. Russia in Ukraine made the same migration after the failed combined-arms breakthrough of 2022, conducting the deep operation through long-range strikes against Ukrainian energy and industrial infrastructure. Ukraine's strikes against Russian oil refining are the same operation in reverse. The example was there. The US could not see that its forward power projection, expensive offensive platforms concentrated at the chokepoints and theaters where the imperial economy required guaranteed flows, had become vulnerable to weapons that cost far less than the ships and aircraft they threaten. Hormuz is the test case, and the imperial-enforcement function is failing the test.

Even the poorest belligerents can now use this method to threaten a stronger power's trade. On July 20 the Yemeni armed forces, the poorest belligerent in either war, under blockade since 2015, declared a maritime embargo on Saudi Arabia's Red Sea ports, effective immediately, on the stated equation of blockade for blockade.[452] Arrighi had the sentence for it in 1994, written about Indochina, in paraphrase: a world-encompassing military apparatus that proved wholly unable to coerce one of the poorest nations on earth.[453] The United States blockades Iran's ports; Iran tolls and mines Hormuz; Ukraine besieges Crimea's fuel and bridges; Russia besieges Ukraine's filling stations and tanker trucks; Saudi Arabia besieges Yemen; Yemen now formally besieges the export line that carries the large majority of Saudi crude. Every actor in both wars is simultaneously besieger and besieged. Metabolic siege, the interdiction of fuel, water, power, and the human willingness to traverse the routes between them, has become the universal grammar of war, available at every scale from the hegemon's carrier groups to a tribal militia's declaration. The imperial-enforcement function was supposed to be the one instrument in the system that could not be mirrored. It has been mirrored by everyone, including the weakest, and the tolls are now collected in every direction at once.

A much weaker belligerent can divert shipping by making the expected cost of a voyage unacceptable to owners and insurers. It need not strike most of the ships that would otherwise pass through the strait. The extra cost of insurance against war damage, insurers' willingness to cover ships and cargoes, and shipping companies' route choices do the closing, and they respond to expected attacks as well as attacks already carried out. The Bab el-Mandeb precedent is already on the record: flows through the strait fell, on the count of the Energy Information Administration (EIA), from roughly 9 million barrels a day

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[452] Al-Manassa, July 20, 2026, on Mohammed al-Bukhaiti's distinction between Saudi-aligned vessels and other Red Sea states, https://almanassa.com/en/news/33009; Dawn, July 25, 2026, quoting Mohammed Abdusalam on a blockade limited to the Saudi side, https://www.dawn.com/news/2018198. The meaning of both sea exits being lost to Saudi shipping is the author's assessment of that restriction, not a claim that all Red Sea shipping ceased.

[453] Arrighi, The Long Twentieth Century, 21.

in 2023 to about 4 million in 2024 across a campaign in which the overwhelming majority of transits were never struck.[454] Naval protection has to reduce the expected danger enough for commercial traffic to return on affordable terms. Destroying a launcher does not establish that the next voyage is safe if replacement weapons and crews can resume attacks. The instrument that mirrors the hegemon's chokepoint power is the price and terms offered by marine insurers such as those in the Lloyd's market.

The struggle can damage the shared conditions of production without producing a settlement that reliably restores them. A refinery disabled to weaken an enemy also removes fuel from customers outside the war, just as interceptors spent in one theater become unavailable in another. Repair can restore output only to expose it to another attack. Those losses reach other economies through interrupted deliveries and dearer credit, while an agreement still needs parties able and willing to enforce it. The capacity to inflict the damage has spread faster than the capacity to organize a peace.[455]

North of Iran lies the inverse of Hormuz. Hormuz is a chokepoint the hegemon can no longer hold open. The Caspian is a corridor it cannot enter: the convention its five littoral states signed in 2018 bars the armed forces of any outside power from its waters.[456] It has become the supply line between the two most heavily sanctioned states in the system. Iranian drones, shells and training went north to Russia's war from 2023, and since Iran's own stocks were degraded the flow has reversed, with Russian components moving down the Volga and across the water. Aircraft and drones can strike its ports, as Israel did at

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[454] U.S. Energy Information Administration, "Fewer Tankers Transit the Red Sea in 2024," Today in Energy, October 11, 2024 (Bab el-Mandeb oil flows of 8.7 million barrels a day in 2023 and 4.0 million in January to August 2024, on Vortexa data), https://www.eia.gov/todayinenergy/detail.php?id=63446.

[455] Prikryl, Rudolf. "The 'Revolution' of Operational Art: The Transparent Battlefield, the Migration of Deep Operation, and the Character of the Next War." Counterattack Journal, September 25, 2026. https://www.counterattackjournal.org/blog/revolution_of_operational_art Sections IV–VIII develop the author's argument about damage, bypass and settlement. Mirjana Spoljaric, interviewed by Lulu Garcia-Navarro, "She's Been to Gaza. She Met With the Iranians. Now She Has a Warning," The Interview, The New York Times, October 10, 2026, https://www.youtube.com/watch?v=hDWdce9a6kY, 27:03–31:30 and 35:00–36:58. She describes conflicts connected through military partnerships and weapons supplies, affected sea routes, eroded development and fiscal capacity, and weakening capacity to negotiate settlements. This supports the connected-war mechanism; the claim about capitalism's renewal is the author's further argument.

[456] United Nations Regional Centre for Preventive Diplomacy for Central Asia. Water Yearbook: Central Asia and Around the Globe 2018. Section 12, review of the Convention on the Legal Status of the Caspian Sea (Article 3, non-presence of armed forces not belonging to the parties). https://unrcca.unmissions.org/sites/default/files/yearbook2018_en.pdf.

Bandar-e Anzali in March 2026. No navy can stop and search what crosses it. A blockade of Iran's southern coast leaves this door open.[457458459460461462]

The war is worse than a mistake of timing. It has no outcome the United States can use. If American force cannot break Iran's hold on the Strait of Hormuz, Iran ends the war as the gatekeeper of the passage, and every government that hedges between Washington and its rivals has watched a mid-sized power hold a strait twenty-one miles wide against the navy that guaranteed it for half a century. If American force does break that hold, it does so against a state that cannot survive the loss, and a state in that position can mine the passage and burn the Gulf's oil and gas plant on its way down. Gas trains and refineries of that size take years to rebuild. The first ending hands the chokepoint to Iran. The second destroys the largest oil and gas province on earth and leaves the petrodollar order nothing to be rebuilt on. The patient ordered a meal with two courses, and both are fatal to the arrangement the war was meant to defend. The stalemate of these months is what it looks like when neither course can be finished.

The strongest contemporary articulation of the irreversibility claim comes from inside the institutional class most committed to American primacy. The columnist Robert Kagan, co-

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[457] Interfax-Ukraine. "Ukraine Receives Requests from 11 Countries for Security Support in Connection with Iran's Actions—Sybiha." March 16, 2026. https://en.interfax.com.ua/news/general/1152108.html.

[458] Coffey, Luke. Time for a U.S. Strategy in the Caspian. Heritage Foundation Special Report 216, August 19, 2019. https://www.heritage.org/europe/report/time-us-strategy-the-caspian

[459] Russian Railways and the Russian Ministry of Transport, 2024: 12.9 million tons by rail on the corridor, 26.9 million tons across all modes, up 19%.

[460] The Wall Street Journal. "Israel Hits Smuggling in Caspian." March 25, 2026, A8. https://www.wsj.com/public/resources/documents/s0cNgmELRiY0bUeogOiD-WSJNewsPaper-3-25-2026.pdf The print article reports documents supporting the shell shipments and discusses imagery and drone cooperation. It does not establish every transfer detail in the surrounding passage.

[461] Institute for Science and International Security. "Highlights of Institute Assessment of Alabuga Drone Documents." August 17, 2023. https://isis-online.org/isis-reports/highlights-of-institute-assessment-of-alabuga-drone-documents

[462] Critical Threats Project and Institute for the Study of War. "Iran Update, Evening Special Report, March 19, 2026." https://www.criticalthreats.org/analysis/iran-update-evening-special-report-march-19-2026 ; ArmyInform. "SOF special operation: two vessels supplying military cargo to Russia hit in the Caspian Sea." December 12, 2025. https://armyinform.com.ua/en/2025/12/12/sof-special-operation-two-vessels-supplying-military-cargo-to-russia-hit-in-the-caspian-sea/ The Ukrainian announcement names Kompozitor Rakhmaninov and Askar-Sarydzha near Kalmykia.

founder of the Project for the New American Century, published “Checkmate in Iran” in The Atlantic on May 10, 2026. Kagan reads the war as a decisive strategic defeat without precedent in American history. He forecast that there would be no return to the status quo ante, that Hormuz would not be “open” again, that Iran would control transit and demand tolls, that the Gulf states would accommodate Tehran, and that American allies would question American staying power. The passage data through September 2026 bear out part of the forecast and leave part open. Crude has left the Gulf at close to its pre-war volume, more of it than before by pipeline around the strait, while refined products still cross the strait at a fraction of their pre-war flow, and authority over transit remains disputed.[463]

Kagan distinguishes setbacks the United States can absorb from a defeat that undermines the alliances and chokepoints on which its wider power depends. I accept that distinction and dispute his explanation of how the United States reached the latter kind of war. For Kagan, the war is a contingent strategic blunder. Trump made bad decisions, different decisions could have produced different outcomes, and the implicit counterfactual is a competent administration making the right calls and preserving primacy.

A Harris administration or a different Republican one in 2025 might not have launched this war. The materialist question is why a promise to restore American power by force gained support, what interests and institutions made it possible to act on that promise, and how the resulting war changed the choices still available. Decline can make confrontation more attractive without making it inevitable. A government that avoids a destructive war preserves resources and possibilities that the war can take away.

Earlier presidents from Carter forward repeatedly stopped short of a full-scale war with Iran. Carter ate the hostage crisis. Reagan absorbed the Beirut barracks and the Tanker War. Clinton sought to contain both Iran and Iraq. The younger Bush, with the apparatus of the Project for the New American Century pressing for it, did not go to Iran after Iraq. Obama made the nuclear agreement. Trump in his first term ran maximum pressure, killed Qassem Soleimani, commander of the Revolutionary Guard’s foreign operations arm, and did not go to war. Biden tried to revive the agreement, failed, and kept the pressure on. Forty-six years of restraint from the one war held through a day of naval battle in the Gulf in April 1988 and an Iranian airliner shot down by mistake that July.

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[463] Kpler ship-tracking data via Reuters, October 5, 2026 (Gulf crude exports, seven-day average 18.5 million barrels a day on October 1, against a pre-war average of about 18 million from March 2025 to February 2026), https://www.aljazeera.com/news/2026/10/5/middle-east-oil-exports-surpass-pre-war-levels-despite-tensions-data-shows; Kpler via International Business Times UK, October 1, 2026 (about 40% of the region’s crude leaving without crossing Hormuz, against 17% before the war; refined products through the strait 677,000 barrels a day over seven days against 3.6 million before the war), https://www.ibtimes.co.uk/strait-hormuz-crude-flows-prewar-diesel-supplies-tight-1823015; Mohammad Bagher Ghalibaf, October 4, 2026, as reported by Reuters (the strait to stay closed until Washington accepts Tehran’s plan to reopen it).

The restraint was tested hardest in 2012. Iran was threatening to close the strait, American carrier groups were in the Gulf, a European oil embargo was in preparation, and Brent stood above $128. The American military was at the peak of its post-Iraq experience and Iran's missile and drone forces were far less developed than they are now. By every measure the war's defenders cite for 2026, 2012 was the better year to fight. An administration with serious Iran hawks in it judged the war catastrophic and negotiated instead. The governing class could still read the strait.[464]

The pattern then broke by steps: the killing in 2020, American bombers over Fordow, Iran's underground enrichment plant, in June 2025, and the war eight months later. The loss of American authority made restraint harder to defend within the governing coalition. Earlier administrations could present non-confrontation as confident dominance; by 2025–26 it was increasingly open to attack as acceptance of decline. The pressure to demonstrate power grew as the military cost of doing so rose. That helps explain the appeal of escalation. The decision to accept its costs still requires an account of the people who took it and the alternatives they rejected.

The strongest reply is that the arithmetic changed. Shale made the United States a net exporter of energy, electric cars are cutting its gasoline demand, and the upper half of its households can absorb a price at the pump. On this account Trump could afford what Obama could not. The reply treats the war as a question about one commodity in one country. The shock runs through sulfur and ammonia into fertilizer and the next harvests, and no electric car touches that. It runs through Treasury yields and the composition of reserves, which answer to the oil price whatever America itself burns. And the war was a demonstration of enforcement at the chokepoint on which the dollar's place in energy trade depends. A country can be self-sufficient in oil and still lose the thing its navy at the strait was for.

By June the incumbent had signed away much of what the war was fought to keep. The Islamabad memorandum provided for a plan of at least $300 billion for Iran's reconstruction, to be drawn up with the regional partners, an end to all sanctions, and the frozen funds made fully available. On passage it gave free transit for 60 days only and left the strait's future administration and maritime services to Tehran's dialogue with Muscat and the other coastal states, under the sovereign rights of coastal states. A right to charge is an inference from those signed terms. Richard Haass and Carolyn Kissane draw it, reading the text as accepting Tehran's right to collect payments, and the 60-day limit makes the

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[464] EIA, Brent spot series, March 2012, https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?f=M&n=PET&s=RBRTE. The administration's national-security team included John Brennan as counterterrorism adviser and Leon Panetta as defense secretary.

strait's toll a term the incumbent signed.[465] The enforcement mechanism behind that toll is the navigation regime Tehran asserts over the northern route near Larak Island.

From mid-July, political pressure against compromise grew on the Iranian side as well. On July 18 a written statement attributed to Supreme Leader Mojtaba Khamenei threatened unforgettable lessons, issued in the same window in which Iran formally suspended its commitments under the June memorandum[466] and struck the Kuwaiti oil export complex. A Supreme Leader absent from public view, his authority resting on the security organs, would face strong political pressure not to begin his tenure by accepting an American ultimatum. Later reporting put the July attacks in the hands of hardliners acting without the president's or the Guard commander's authorization.[467] The two negotiating cycles that followed each proposed the same shape, a strait administered by Tehran.

The bases themselves are filing their own report. The Pentagon is weighing a smaller military presence in the Gulf once the war ends, by the Washington Post's account in August of deliberations inside the department, with the region's large American bases, battered by months of Iranian strikes, named as the reason.[468] I draw two conclusions from the evaluation. The bases were built as the shield of the protection arrangement, and the war converted them into its liability, the hosts made targets by the presence sold to them

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[465] Richard Haass and Carolyn Kissane, "The Stalemate With Iran Is Not Sustainable," Foreign Affairs, September 23, 2026, who read the text as accepting Tehran's right to collect payments; the Islamabad Memorandum of Understanding, the 14-point text released by the White House on June 17, 2026 and signed the same day (points 6, 7 and 11; the strait clause; passage without charge for 60 days only), at the American Presidency Project.

[466] Radio Free Europe/Radio Liberty. "Statement Attributed to Iran's Supreme Leader Blasts US, as Leaders Say MOU 'Suspended'." July 18, 2026. Reprinted by GlobalSecurity.org. https://www.globalsecurity.org/wmd/library/news/iran/2026/07/iran-260718-rferl03.htm

[467] Fassihi, Farnaz. "How Iran's Hard-Liners Prevailed and Sabotaged U.S. Peace Deal." The New York Times, September 13, 2026. https://monorepo-sample1.nyt.net/2026/09/13/world/middleeast/iran-hard-liners-sabotaged-peace-deal.html Account checked through The Times of Israel. "Iran hardliners launched Hormuz attacks in defiance of leaders, undermining US deal — report." September 2026. https://www.timesofisrael.com/iran-hardliners-launched-hormuz-attacks-in-defiance-of-leaders-undermining-us-deal-report/ The report attributes the July attacks to hardliners acting without President Masoud Pezeshkian's or IRGC commander Ahmad Vahidi's authorization; it does not establish that all Iranian authority was absent.

[468] Noah Robertson, John Hudson and Susannah George, Washington Post, August 18, 2026 (the Pentagon evaluating its Middle East footprint after damage to more than 200 U.S. sites; no formal review ordered; discussions preliminary and no changes approved), https://www.washingtonpost.com/national-security/2026/08/18/pentagon-evaluating-smaller-us-military-presence-persian-gulf-after-iran-war/.

as insurance, which weakens the arrangement whatever the evaluation decides. And if a drawdown comes it will likely be announced as a strategy, the retreat scheduled after the fact, which is how architectures leave regions they can no longer hold. Whether it comes, and whether it lasts, is still open. Suez in 1956 was an incumbent performing an enforcement it could no longer pay for, and the reserve that failed it then was the pound. The successors differ more than the straits do. By January 1957 Washington had offered to take over the region's enforcement. In 2026 Beijing has taken on no enforcement duty at the strait.[469][470][471][472]

The damage Iran has inflicted on Gulf production capacity is the cardiac event in progress. The International Energy Agency (IEA) has described it as the largest supply disruption in the history of the global oil market.[473]

The patient veers between the commitment to the order and brief moments in which the heart attack under way is visible, then returns to the commitment.

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[469] Office of the Historian, "The Eisenhower Doctrine, 1957," https://history.state.gov/milestones/1953-1960/eisenhower-doctrine. Office of the Historian, "The Suez Crisis, 1956," https://history.state.gov/milestones/1953-1960/suez, on the Eisenhower Doctrine as the response to the weakening of British power in the region.

[470] Foreign Relations of the United States, 1955–1957, Vol. XVI, doc. 596, conference with the President, November 20, 1956 (help to Britain provided its forces start to leave at once), https://history.state.gov/historicaldocuments/frus1955-57v16/d596; vol. XVI, doc. 634, December 3, 1956 (the withdrawal statements judged to meet the UN requirements; access to IMF drawings and Export-Import Bank credit cleared), https://history.state.gov/historicaldocuments/frus1955-57v16/d634; James M. Boughton, "Was Suez in 1956 the First Financial Crisis of the Twenty-First Century?" Finance & Development 38, no. 3 (September 2001) (Washington insisted on compliance with the UN resolution beyond a ceasefire; the IMF drawing of $561 million and stand-by of $739 million), https://www.imf.org/external/pubs/ft/fandd/2001/09/boughton.htm; United Nations, UNEF I background (Anglo-French withdrawal completed December 22, 1956), https://peacekeeping.un.org/sites/default/files/past/unef1backgr2.html.

[471] Foreign Relations of the United States, 1955–1957, vol. XV, doc. 478, memorandum of conversation, July 19, 1956 (Dulles to Ambassador Hussein on the High Aswan Dam), https://history.state.gov/historicaldocuments/frus1955-57v15/d478. Foreign Relations of the United States, 1955–1957, vol. XV, "Decision to Withdraw Support from the Aswan High Dam and Egyptian Nationalization of the Suez Canal Company, March 13–July 26, 1956," https://history.state.gov/historicaldocuments/frus1955-57v15/ch2.

[472] Gamal Abdel Nasser, "The Egyptian Revolution," Foreign Affairs 33, no. 2 (January 1955): 199–211.

[473] International Energy Agency. Oil Market Report March 2026. March 12, 2026. https://www.iea.org/reports/oil-market-report-march-2026

The attacks now affect the prices and financial claims built on the expectation of secure Gulf supplies. The petrodollar architecture is being replaced in slow motion.

The system is finding its new equilibrium through the cardiac event the patient cannot perceive themselves having triggered. Is there a problem with the war you ordered?

Cracks at the thinnest edges

If Hormuz is the chest-clutch moment, the failing organs show the body's trajectory and its timeline.

A supply shock reaches people at different times because some states and households can buy time and others cannot. A reserve keeps the fuel moving and money wins a scarce cargo, but the cargo one buyer wins is the one another loses, and the cost arrives later and lower down, as a higher bill, a cancelled flight or a line that cannot run. The states with the smallest reserves crack first and the deepest last.

Italy is the canary. Italian airports began jet fuel rationing in early April, and a second round extended it to seven airports, with Brindisi reporting complete fuel depletion.[474][475]

The strait itself is not closed. Iran is trying to administer it, and the attempt is contested. Iran's foreign ministry stated the aim in a television interview on August 2, reported the next day: under no circumstance will the Strait of Hormuz return to the situation before the

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[474] Italy's first round of rationing, in early April, affected Milan Linate, Bologna, Venice Marco Polo and Treviso. Air BP Italia issued the emergency notices to airmen, and the government of Prime Minister Meloni reactivated the regulatory framework first used during the COVID period; Meloni flew to the Gulf on April 5 to lobby Saudi Arabia, Qatar and the UAE for emergency fuel supply. L'Unione Sarda and Il Post, April 6, 2026 (new notices to airmen leaving Brindisi without jet fuel at least until April 7, and limited supply at Reggio Calabria and Pescara, seven airports in all with the first four), https://www.unionesarda.it/news/italia/chiusura-di-hormuz-un-aeroporto-italiano-resta-senza-carburante-altri-sei-segnalano-disponibilita-limitate-hr8axjas and https://www.ilpost.it/2026/04/06/aeroporti-brindisi-reggio-calabria-pescara-carburante-aerei/; Wanted in Rome, April 8, 2026, citing ANSA on the complete depletion of jet fuel at Brindisi and a cap of 3,000 liters at Reggio Calabria, https://www.wantedinrome.com/news/italian-airports-ration-jet-fuel-amid-iran-war.html.

[475] Sources for the Italian rationing: Gabriele Barbati, Euronews, April 6, 2026 (the first round at Linate, Bologna, Venice and Treviso from April 4; Air BP Italia's notices giving priority to ambulance, state and over-three-hour flights; the 2,000-liter cap for short-haul flights, under one hour of flight for a Boeing 737 or Airbus A320 on pilots' account to Corriere della Sera), https://www.euronews.com/2026/04/06/jet-fuel-crisis-rationing-triggered-at-four-airports-in-italy; Danny Lee, Mihir Mishra and Sonia Sirletti, Bloomberg, via Fortune, April 5, 2026 (the notices to airmen and the maximum of 2,000 liters per aircraft at Venice), https://fortune.com/2026/04/05/italy-jet-fuel-limits-airports-supply-shortages-iran-war/.

war.[476] Fighting had already resumed in late July because, in Tehran's estimation, too many ships were transiting the Omani side. Tehran uses attacks and negotiations to balance two requirements. It needs enough trade to bring in revenue, but unrestricted passage would erode its control over the chokepoint through which a fifth of the world's oil normally passes. A corridor agreed with Muscat could institutionalize that control.

The route the system relied on most received its strike on the night of September 10. Drones launched from Iraqi territory hit the East-West pipeline at its pumping stations, and the kingdom shut the 745-mile line on the 11th. Brent went back above 100 and closed the week more than 8% higher. The line had been carrying crude that would otherwise have moved through Hormuz, to Yanbu on the Red Sea, and Aramco's chief executive, Amin Nasser, had said in August that it had done more to mitigate the war's supply loss than every emergency reserve release combined.[477]

Within a week of the September strike the closure reached the customers. On the 18th Aramco told its European term buyers they would be allocated nothing for October, about 580,000 barrels a day on the IEA's June figure.[478] [479]In the interval the kingdom pushed its crude out through the strait it cannot hold, ship to ship off Sohar, to Chinese and Korean

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[476] IranWire. "Iran Foreign Ministry Spokesperson Baghaei: Oman Deal Won't Reopen Hormuz." August 3, 2026, reporting the August 2 IRIB interview. https://iranwire.com/en/news/155768-iran-foreign-ministry-spokesperson-baghaei-oman-deal-wont-reopen-hormuz/

[477] Saudi Ministry of Energy and Ministry of Foreign Affairs statements, September 11, 2026; NBC, CNN, Al Jazeera, CNBC, and Reuters, September 11 and 12, 2026, copy at https://www.aljazeera.com/news/2026/9/12/saudi-arabia-shuts-critical-oil-pipeline-after-drone-attack-what-happened; the Aramco chief executive's remark of August 2026; Copernicus Sentinel-3 imagery of September 10, 2026. More than 80 energy facilities across the Gulf had been hit by September on a count in Foreign Affairs (Ras Tanura, Sitra, several Kuwaiti refineries, Habshan and Fujairah among them), while the largest fields, processing plants and terminals were spared by a restraint the authors compare to mutual deterrence, until the East-West pipeline and the Bab el-Mandeb in September (Haass and Kissane, September 23, 2026). The September drones hit pumping stations near Al Mesba'ah and south of Medina. Riyadh said it would not retaliate for now, at the request of the Iraqi prime minister, and reserved the right to; Baghdad dismissed a commander.

[478] Reuters, September 15 and 17, 2026, copy at https://gcaptain.com/oil-prices-surge-as-saudi-red-sea-loadings-halt-libya-shuts-fields/; Bloomberg, September 18, 2026, copy at https://www.rigzone.com/news/wire/oil_falls_as_supply_fears_ease-18-sep-2026-184657-article/; IEA, June 2026, for OECD Europe's 577,000 barrels a day of Saudi crude, https://www.iea.org/reports/oil-market-report-june-2026.

[479] Reuters, September 17, 2026 (three pumping stations damaged, one more than first assessed; repairs of five to six weeks); Reuters, September 22, 2026 (the restart at a low rate).

refiners.[480] The bypass failed, and the barrels that still moved went east. Restoring the pumps leaves the pipeline exposed to further attacks and does not assure passage.

On September 11, the day the kingdom shut the line, the Houthis completed a push along Yemen's Red Sea coast that had taken a fortnight. They took Mokha and Dhubab on the mainland and Perim, the island in the Bab el-Mandeb, from a Saudi-backed government whose forces had turned to fight the southern separatists instead. From September 11 the maritime embargo the Houthis had declared on the kingdom in July had a coast behind it, and the crown prince asked Washington to strike them. Washington declined. The strait is not theirs in law, since its western shore is Djibouti and Eritrea, and the analysts' word for what they hold is denial: the ability to contest and threaten commercial use of the waterway, and an insurer prices that. The kingdom's crude had no exit that week that a rival of its guarantor did not touch. Two of the three straits Afonso de Albuquerque set out to hold for Portugal, Hormuz and the Bab el-Mandeb, were closed or contested against the incumbent's allies in the same week.[481]

The Houthis are a movement out of the Zaydi highlands of the poorest country in the Arab world. They have now fought the richest state on the peninsula since 2015, and the United States itself since 2023, and won every round that mattered. The kingdom opened its war with the Gulf's air forces and American refuelling and targeting, and closed it in 2022 with a truce that left the movement in Sana'a and in possession of the coast. Between the two the movement built, with Iranian design and its own workshops, missiles and one-way drones. It closed the Bab el-Mandeb to the incumbent's shipping through 2024 against two American naval operations and shot down more than 20 Reaper drones at $30 million each

[480] Reuters, September 18 and 22, 2026 (trade sources on about 60 million barrels from Ras Tanura via Sohar and Gulf exports of 1 to 1.5 million barrels a day, copy at https://economictimes.indiatimes.com/news/international/business/aramco-to-up-oil-exports-to-60-mn-barrels-in-september-october/articleshow/134343647.cms; three sources on the restart, the damaged stations and the weeks to full flow); JPMorgan's satellite count of 2.9 million barrels a day through the strait over six days against 700,000 in August, as reported by OilPrice (Charles Kennedy), September 21, https://oilprice.com/Latest-Energy-News/World-News/Saudi-Arabia-Reroutes-Oil-Exports-as-Houthi-Strikes-Target-Yanbu.html; OilPrice, September 24, on Yanbu loadings not yet resumed; Brent below $100 on September 22 (Business Standard).

[481] NBC, September 11, 2026 (the coast, Perim, the crown prince's request, the analyst on denial), https://www.nbcnews.com/world/middle-east/houthis-control-bab-el-mandeb-yemen-red-sea-saudi-iran-war-oil-rcna597186; Al Jazeera, September 12, 2026, https://www.aljazeera.com/news/2026/9/12/iran-backed-houthis-seize-strategic-mayun-island-can-they-hold-it; the Houthi embargo declaration of July 2026 as cited in the war section. Britain held Perim from 1857 to 1967.

with missiles costing a fraction of that.[482] The poorer combatant can impose costs the richer cannot sustain, and Riyadh's wealth has not bought a way out of that arithmetic.

On the harvest

In May a second-wave crisis was emerging in fertilizer markets, not yet visible in headline indicators. The Hormuz closure cut off the sulfur that is the basic feedstock for sulfuric acid, the world's most consumed industrial chemical, which is in turn the feedstock for phosphate fertilizers and for copper leaching. Sulfuric acid prices in Chile, the world's largest copper producer, more than doubled. About 23% of world ammonia trade, the feedstock of nitrogen fertilizer, was shut at Hormuz. John Denton, secretary general of the International Chamber of Commerce, warned on May 7 that the fertilizer shortage would bring deadly food scarcity and price rises.[483]

The scarcity Denton warned of has not come on the timetable feared in May. The price arrived in full: urea rose by about half inside three weeks, and affordability fell to its weakest since 2022. The crops held, and the reason is the lesson. Four fifths of American farmers had bought their spring fertilizer before the war. Rerouted and replacement nitrogen brought urea back below its 2025 average by September.[484] Exporters with large harvests loosened their bans. A shock of this kind shows in prices within weeks, in decisions about inputs over a season, and in output a season or a year after that. Some of what held the line can be used once: a stock bought early, a reserve released, a credit line stretched. The October forecast is for the second-largest cereal harvest on record. That

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[482] The Saudi-led intervention of March 2015 and the truce of April 2022; the Abqaiq and Khurais strikes of September 14, 2019; Operation Prosperity Guardian (2023 to 2024) and Operation Rough Rider (2025), the latter's cost of almost $1 billion in its first three weeks, operations and not munitions alone, as reported by CNN (Natasha Bertrand, Haley Britzky and Zachary Cohen, April 28, 2025, copy at https://www.egyptindependent.com/huthis-successful-targeting-of-us-drones-is-hampering-trumps-mission-to-kill-groups-senior-leadership/); the Reaper losses as reported by the Air Force through 2025; the September 2026 record as cited above.

[483] Denton, Forbes Newsroom, May 7, 2026.

[484] World Bank, Pink Sheet, October 2, 2026 (urea, Eastern Europe, $407.5 a ton in September against a 2025 average of $422.7), https://thedocs.worldbank.org/en/doc/74e8be41ceb20fa0da750cda2f6b9e4e-0050012026/related/CMO-Pink-Sheet-October-2026.pdf.

counts against a general collapse and says nothing yet about who could afford what was grown.[485][486][487]

What remains is the phosphate shortage. In September diammonium phosphate cost $800.60 a ton against a 2025 average of $685, and Mosaic said in August that Brazilian farmers were expected to cut phosphate applications by about 30% in 2026, leaving later harvests at risk.[488] A cut in applications is no measure of the cut in crops, which will depend on the crop, the soil's reserves, the weather and what farmers do next.

Export restrictions moved before the season did. Beijing suspended phosphate fertilizer exports in late 2025, broadened the restrictions in March, and halted sulfuric acid shipments in May. On Reuters' March estimate the restrictions reached as much as 40 million tons of fertilizer against the prior year's Chinese exports, an exposure and not a

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[485] FAO, Cereal Supply and Demand Brief, October 2, 2026 (2026 world cereal output forecast at 2.979 billion tons, second largest on record; a forecast of world output, not observed regional yield), https://www.fao.org/worldfoodsituation/csdb/en/.

[486] Agence France-Presse, "'Blindsided': US Farmers Strained as Fertilizer Costs Surge on War," April 15, 2026, via The Sun (Malaysia) (Agriculture Secretary Brooke Rollins: 80 percent of American farmers had bought fertilizer for the spring planting season before the conflict; urea up around 50% at the port of New Orleans), https://thesun.my/news/world-news/blindsided-us-farmers-strained-as-fertilizer-costs-surge-on-war.

[487] World Bank, Commodity Markets Outlook, April 2026 (a jump of more than 50% month on month in the price of urea in March; fertilizer affordability expected to deteriorate to the worst levels since 2022), https://thedocs.worldbank.org/en/doc/f3138644a1e8e2bb631399ae11d6c408-0050012026/commodity-markets-outlook-april-2026; John Baffes and Kaltrina Temaj, "Fertilizer Prices Surge as Strait of Hormuz Disruptions Tighten Supplies," World Bank Data Blog, May 14, 2026 (Iran halted ammonia production amid the conflict; Qatar suspended production of urea, ammonia and sulfur after damage to key facilities; fertilizer affordability for farmers at its weakest level since mid-2022; urea up 80% from February, above $850 a ton in April), https://blogs.worldbank.org/en/opendata/fertilizer-prices-surge-as-strait-of-hormuz-disruptions-tighten-; QatarEnergy, statement of March 3, 2026, via Qatar Tribune (production of urea, polymers, methanol, aluminum and other products stopped), https://www.qatar-tribune.com/article/222444/latest-news/qatarenergy-stops-downstream-production.

[488] World Bank, Pink Sheet, October 2, 2026 (DAP $800.6 a ton in September; 2025 average $685.2), https://thedocs.worldbank.org/en/doc/74e8be41ceb20fa0da750cda2f6b9e4e-0050012026/related/CMO-Pink-Sheet-October-2026.pdf; The AgriBiz, "Mosaic sees Brazil phosphate applications falling 30%, warns of yield hit," August 5, 2026 (earnings call; Brazil about 30% in nutrient terms in 2026, 1.3 million tons DAP equivalent), https://www.theagribiz.com/international/mosaic-sees-brazil-phosphate-applications-falling-30-warns-of-yield-hit/.

measured withdrawal.[489] China, in the words of an analyst at BMI, Fitch's research unit, to Reuters, "restricts supplies rather than coming to the rescue during global tightness," insulating its domestic market from price shocks. The Wall Street Journal's analysis files this as systematic market manipulation. Beijing runs it as a plan target denominated in food physically available to meet people's needs, the food system held at the commanding heights.

The pattern behind the food export bans of 2008 and 2010 is reassembling on the fertilizer side.[490]

Europe's figures run the same shock through a buffered core, where a small aggregate decline can conceal severe local losses. The climate layer arrived inside the war window and not after it. After successive heatwaves and a continent-wide drought, the French farmers' federation FNSEA put economic losses for fresh fruit and vegetables near a quarter in early July.[491] The war also raised farmers' input costs.

And yet the Joint Research Centre's July forecast had EU total cereals just 1% below the five-year average.[492] Europe's buffers are pre-purchased inputs, irrigation, the EU's farm

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[489] Reuters, March 19, 2026 (the mid-March bans on nitrogen-potassium blends and certain phosphate varieties, added to the urea quotas, restricting between half and three quarters of last year's Chinese exports, up to 40 million metric tons on Reuters' estimate), copy at https://www.agcanada.com/daily/china-restricts-fertilizer-exports-further-crimping-war-tightened-supply; World Bank, Commodity Markets Outlook, April 2026: the Hormuz disruption removed roughly one-third of globally traded fertilizer, near 40 million tons of product, https://thedocs.worldbank.org/en/doc/f3138644a1e8e2bb631399ae11d6c408-0050012026/commodity-markets-outlook-april-2026; CRU, May 27, 2026: China exported 3.3 million tons of sulfuric acid over May to December 2025, now withdrawn through the end of 2026. The rice export bans of 2008 began with India's and Vietnam's, with Egypt's and Cambodia's behind them; Russia banned wheat exports in 2010, and the price spike lay behind the Arab Spring's bread lines. China's sulfuric acid exports were 4.65 million tons in the whole of 2025.

[490] World Bank. East Asia and Pacific Economic Update, April 2020. Washington, DC: World Bank, 2020. Discussion of the food export restrictions imposed in 2008–2010. https://openknowledge.worldbank.org/bitstream/handle/10986/33477/9781464815652.pdf.

[491] Agence France-Presse, July 13, 2026, via Pleinchamp (the FNSEA farmers' federation in early July: economic losses near 25% for fresh fruit and vegetables), https://www.pleinchamp.com/actualite/canicule-une-catastrophe-pour-l-agriculture-qui-commence-a-faire-ses-comptes; Légumes de France, press release on the third heatwave, July 17, 2026 (a separate warning that losses for some sectors could reach 50% of annual tonnage in France), https://r2.vert.eco/2026/08/28155005/1707202620CP20-20TroisiC3A8me20C3A9pisode20de20canicule.pdf.

[492] Joint Research Centre, JRC MARS Bulletin, "Heatwaves Impact Summer and Winter Crops," July 27, 2026 (EU total cereals 1% below the five-year average), https://joint-

payments under its Common Agricultural Policy, and emergency aid such as France's €145 million in July for fertilizer purchases.[493] They may account for part of the small aggregate decline, absorbing at the core what arrives unbuffered at the periphery as people losing the means to obtain food.

The core's buffers also transmit. Ethiopia sources over 90% of its nitrogen fertilizer from the Persian Gulf, exposing it directly to the disruption.[494] The EU's push to refill its gas storage with LNG adds a competing bid against importers such as Pakistan. Europe in 2026 is both the control case that shows what buffering is worth and a channel exporting the shortfall down the income gradient. In 2022 European ammonia capacity was curtailed by as much as 70% as gas repriced, and the same mechanism can turn this winter's gas market into the 2027 fertilizer market, on top of the sulfur that never sailed.[495]

The cracks propagate through the Asian-European competition for the remaining spot cargoes, LNG sold for near-term delivery. Asian spot LNG prices were up roughly 130% on September 1 from their level the day before the war began,[496] and each premium-priced Asian win is a cargo not arriving in the European refill pool. The pool is single and global, and it has been depleted faster than it can be refilled.

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research-centre.ec.europa.eu/jrc-news-and-updates/heatwaves-impact-summer-and-winter-crops-2026-07-27_en. The bulletin of September 28, 2026 published no total for cereals; it put grain maize 8%, potatoes 7% and sugar beet 11% under the five-year average, with winter crops close to it, https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/european-agriculture-hit-hard-exceptionally-hot-and-dry-summer-2026-09-28_en.

[493] The aid: Agence France-Presse, July 9, 2026, via Médias24 (Agriculture Minister Annie Genevard's emergency aid for purchases of nitrogen fertilizer, €145 million, €107 million of it from the European crisis reserve, at €50 a ton of simple nitrogen fertilizer and €70 for the most exposed farms, on purchases from June 1 to October 1), https://medias24.com/agence-presse/engrais-aides-durgence-et-strategie-pour-sortir-de-la-dependance/. On September 4, 2026 the ministry extended that aid to December 31 within a plan of more than €1 billion for farms hit by the summer's heatwaves, drought and fires, reporting yield losses averaging 50% in many territories, https://agriculture.gouv.fr/telecharger/155744.

[494] Famine Early Warning Systems Network. "High Fuel Prices and Market Dependence Ahead of Lean Season Strain Food Access." Ethiopia Food Security Outlook Update, April 2026. https://fews.net/east-africa/ethiopia/food-security-outlook-update/april-2026

[495] GIE AGSI+ storage data, July 2026; Fertilizers Europe on the 2022 ammonia curtailment. ACER, the EU Agency for the Cooperation of Energy Regulators, "The EU Will Need Higher LNG Imports to Refill Gas Storage Ahead of Winter," July 7, 2026 (LNG imports about 13% above 2025 levels to meet summer demand and reach the 90% filling target by November 1; an assessment, not a legal import requirement), https://acer.europa.eu/news/eu-will-need-higher-lng-imports-refill-gas-storage-ahead-winter. Storage across the bloc stood at 51% in early July, 14 points under its trajectory, going into the 2026–27 heating season.

The visibility of the cascade is itself class-structured, and it governs which channels the analytical class tracks and which it discovers only after they have voted or rioted. Capital's channels have tickers: default-insurance prices, refining margins, long-term borrowing premia, the Korean equity index. The periphery's channels have none: the sulfur that did not reach the acid plant, the fertilizer that did not reach the smallholder, the planting decision made without inputs, the blackout hours in Karachi when the cargo went to Rotterdam instead. The market's own euphemism for the second category is demand destruction, a passive construction with no subject in it, as though demand were destroyed the way a bridge is destroyed, and not specific people being priced out of specific consumption in a globally cleared auction.

Demand destruction and shortage are the same physical event for the household under different rationing technologies: one allocates the missing molecules by queue, the other by wage. The economist Amartya Sen showed from the Bengal famine of 1943 that the second technology kills without the first: no exceptional aggregate deficit, 3 million dead inside a functioning price mechanism, famine as entitlement collapse while the market cleared.[497] The fertilizer shortage travels through that mechanism: higher costs reach households through food prices and lost income even while aggregate supplies hold up, and price series register the cost of food without showing who can still afford to eat. Financial prices make some consequences visible almost immediately. Deaths from lost income, malnutrition and missed treatment emerge later, and a market price cannot show how many households have lost the means to survive.[498]

On the refinery

Presidential announcements stop at the refinery gate. Between crude and the pump sits the crack spread: the difference between a refined fuel's price and the crude used to make it, a rough measure of the refiner's margin before other costs. Damage to refineries can keep diesel expensive even when crude eases.[499]

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[496] Platts JKM, February 27, 2026: $10.697 per million Btu; Bloomberg spot assessments, August 28 ($23.388, a four-year high) and September 1 ($24.614), after QatarEnergy extended its force majeure into October and early November, copy at https://sg.finance.yahoo.com/news/qatar-extends-lng-force-majeure-003610853.html.

[497] Sen, Poverty and Famines (1981).

[498] The first technology's politics were drawn in 1917: the bread card rations the popular goods while the rich get around it, supplementing the ration on the side and sending their servants to stand in the queues (Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 8).

[499] Martijn Rats, Morgan Stanley's commodity strategist, interviewed by Bloomberg Television, October 5, 2026, https://www.youtube.com/watch?v=-XD2K_L-Frk, and his note of July 19, 2026 (refining, more than crude, as the system's bottleneck; European diesel stocks heading for multi-year lows in November). Crude supply, shipping and refining can each restrict the fuel that reaches users. Gasoline held above 4 dollars while

Fuel use was falling while diesel became dearer. In the four weeks to August 28 the EIA's proxy for consumption was down 4% on the year, and in the week ending August 28 retail diesel was up 50% on the year, against a 31% rise in crude.[500] Buyers were cutting back, but that did not restore the capacity to turn crude into fuel. A president can move Brent with a sentence. He cannot talk a refinery back into service.[501]

September exposed another gap: physical cargoes, bought for delivery, changed hands past $120 a barrel while the front-month future, the nearest expiring exchange contract, sat near $105.[502] Immediate supply was scarcer than the headline futures price suggested. The political relief and the household relief have decoupled, and the household's price is the one that votes.

One rationing technology became visible in the refining layer. Diesel cracks were above 100 dollars and refiners were running at 98% into the autumn lull in fuel demand, when

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crude round-tripped, because the crack spread was set by refining destruction, Russia's diesel export ban after the Ukrainian campaign, China's product export limits and the Gulf's damaged refineries, none of which a presidential social-media post touches.

[500] EIA, Weekly Petroleum Status Report, week ending August 28, 2026, four-week averages and retail price tables, https://www.eia.gov/petroleum/supply/weekly/archive/2026/2026_09_02/wpsr_2026_09_02.php. Products supplied, the EIA's proxy for consumption, were down 4% on the year in the four weeks to August 28, gasoline down 2% and distillate down 6%. In the week to August 28 regular gasoline cost $4.07, up 89 cents on the year, and diesel $5.60, up $1.87.

[501] CBS News and Bloomberg on the trades and on the Commodity Futures Trading Commission's request to the exchanges, spring 2026. No account names the seller, copy at https://www.cbsnews.com/news/oil-market-trading-investigation-justice-department/ and copy at https://www.cbsnews.com/news/insider-trading-oil-futures-trump-iran-post/. On at least three mornings someone sold more than half a billion dollars of crude futures in the minutes before the president's post appeared, and the Commodity Futures Trading Commission has asked the exchanges for the records.

[502] International Energy Agency, Oil Market Report, September 11, 2026 (ICE Brent futures at $105 a barrel at the time of writing, with physical benchmarks significantly higher; Dated Brent, an assessment of physical crude cargo prices, at $113.48 on September 9, from an August average of $91.00), https://www.iea.org/reports/oil-market-report-september-2026; Société Générale, as reported by FXStreet, September 21, 2026 (Dated Brent up from about $92 to $127 a barrel between early August and mid-September, front-month futures from about $89 to $105, the premium of Dated Brent over futures above $21), https://www.fxstreet.com/news/brent-diesel-signals-higher-prices-societe-generale-202609211130; World Bank, Pink Sheet, October 2, 2026 (Brent averaged $116.8 in September), https://thedocs.worldbank.org/en/doc/74e8be41ceb20fa0da750cda2f6b9e4e-0050012026/related/CMO-Pink-Sheet-October-2026.pdf.

refineries normally reduce the crude they process by about 2 million barrels a day. The price signal that demand destruction requires never reaches the consumer: the refiner books it as a smaller margin and the producer as a higher price. Refiners have only so much margin to give up. The insulation weakened in September: with the refiners at capacity the pump moved, diesel past $6 a gallon on the EIA's count of September 14 and $6.50 a week later, California past $8, motor oil rationed at the retailer and stations out of the fuel itself.[503]

The same layer is where the crude buffer leaks. Refinery inputs ran at 17.5 million barrels a day in late August, at 98% utilization with domestic demand falling, because net product exports were running 6.6 million barrels a day, up 1.5 million on the year. The American refining system imports crude near record rates, runs flat out on the crack spread, and ships the products into the global shortage. The national crude inventory is drained by that export trade and not by consumption. National inventory and national demand have decoupled the way household relief and political relief already had.[504]

The case for American resilience runs as follows. American crude exports are running at record volumes. The Hormuz closure is a problem for Europe and Asia, not for us. Two oceans buffer the United States from the war zone, the same buffers that let it emerge from both world wars stronger than it entered them. The S&P 500 is at all-time highs, the dollar still settles global trade, and the AI buildout is consolidating American technological dominance.

The two oceans protected the United States when it was the factory of the world it dominated. I argue that they offer insufficient protection to a net consumer dependent on a global production system it has just set on fire.

Taiwan's ability to keep buying scarce fuel protects its electricity supply by placing a growing cost on the utility and, ultimately, on customers or the public budget. The island imports approximately 96% of its energy, and LNG supplies roughly half its electricity. It receives LNG at three terminals, and a March assessment put its gas inventories at about 11

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[503] Energy Information Administration, weekly retail diesel, September 14, 2026 ($6.285 a gallon, California $8.04, the first national average above $6), and the national average past $6.50 reported September 21 and 22, https://www.eia.gov/dnav/pet/PET_PRI_GND_A_EPD2D_PTE_DPGAL_W.htm; GasBuddy, September 10 and 11, 2026 (California stations at the $9.999 display limit, records in 28 states, inventories 13% under the five-year average); Financial Times, September 2026, on Costco's rationing of motor oil and Walmart's stock-outs, https://www.ft.com/content/64f90ab8-5fb0-4594-a900-d03e5ca051e3.

[504] EIA, Weekly Petroleum Status Report, week ending August 28, 2026: refinery inputs 17.5 million barrels a day at 98% utilization, https://www.eia.gov/petroleum/supply/weekly/archive/2026/2026_09_02/wpsr_2026_09_02.php; net product exports 6.6 million barrels a day; crude imports 6.8 million, the four-week average 2% above the year before.

days of use, against a legal minimum of 11 days that rises to 14 in 2027.[505] Two Mailiao coal units were contracted back into service from May 1, reversing a decade-long policy of phasing out coal capacity.[506] The island's dependence on imported gas makes the summer power peak harder to cover, and historically its July electricity demand has run as much as 40% above February's.[507] The Mailiao contract added about one gigawatt for the summer, against a peak Taipower expected to exceed 41 gigawatts.[508] TSMC, the Taiwan Semiconductor Manufacturing Company, produces the leading-edge semiconductors that anchor the global AI buildout on that LNG and on Qatar's helium, which is also in shortage.[509]

The warnings were public. In March the Atlantic Council judged that Taipei's search for other cargoes might not be enough to prevent a shortage at the summer peak, with about

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[505] Taiwan Bureau of Energy, Ministry of Economic Affairs, energy balance, 2024. Energy Administration, "Stable Supply of Natural Gas," security-stock and storage-capacity table, updated February 21, 2024, https://www.moeaea.gov.tw/ECW/english/content/Content.aspx?menu_id=8677 (a security stock of 11 days in 2025 and 14 in 2027; a separate storage-capacity requirement of 20 and 24 days); Energy Administration statement of April 15, 2026, https://www.moeaea.gov.tw/ECW/english/news/News.aspx?kind=6&menu_id=958&news_id=34424 (the 11-day minimum; stocks above legal levels); Kevin Li, Atlantic Council, March 19, 2026 (about 11 days of use).

[506] Taiwan News, April 7, 2026, and United Daily News, April 26, 2026, https://udn.com/news/story/7238/9464545 (the Mailiao units contracted from May 1 as a precaution; no report of actual dispatch was found); AsiaNews, March 23, 2026 (the president's announcement). In March President Lai announced plans to restart the Kuosheng and Maanshan nuclear plants, reversing the long-standing nuclear-free policy.

[507] Kevin Li, "The Iran War Tests Taiwan's Energy Resilience," Atlantic Council EnergySource, March 19, 2026, https://www.atlanticcouncil.org/blogs/energysource/the-iran-war-tests-taiwans-energy-resilience/ (gas near 48% of generation in 2025; historically, July electricity demand up to 40% above February's; TSMC almost a tenth of the island's power use). Mark F. Cancian, Matthew F. Cancian and Eric Heginbotham, Lights Out? Wargaming a Chinese Blockade of Taiwan (CSIS, July 2025), https://csis-website-prod.s3.amazonaws.com/s3fs-public/2025-07/250730_Cancian_Taiwan_Blockade.pdf, a blockade study run at several import levels, including a zero-import benchmark, and not a forecast for Hormuz: "Energy is the weakest element in Taiwan's resilience against coercion" (as quoted by Michael Peck, Defense News, August 1, 2025); its scenarios give the chip plants priority as generation falls (printed pp. 77–78).

[508] Darrell Proctor, POWER, April 7, 2026, and Taiwan News, April 7, 2026 (Mailiao units 1 and 3, about one gigawatt). Taipower's chairman, Tseng Wen-sheng, April 30, 2026, as reported by China Times (a summer peak expected above 41 gigawatts).

[509] Tom Murphy, Verdantix, May 20, 2026 (Ras Laffan about 30% of world helium).

11 days of gas in store.[510] The Bank of Korea raised the same concern in its May outlook.[511] A cruder version, that the island would go dark in eleven days, circulated from accounts Taipei identified as a disinformation campaign, and it should be kept apart from the analysts' case.

The shortage did not come. Taiwan avoided rationing, and by June it was using slightly more gas than a year earlier, with gas-fired generation up and coal-fired generation down across the grid.[512] The gas was there for a buyer willing to pay. Taiwan's state importer, CPC, bought spot cargoes at premium prices, and American LNG deliveries to the island rose to about 1.33 million tonnes from March to May, against 0.44 million a year earlier.[513] From March to August Taipower absorbed NT$71.1 billion in costs it could not pass on, almost as much as its record profit of the year before, after CPC raised its gas price to Taipower by 41.58% in April.[514]

On September 3 the cost reached the budget. The Cabinet proposed a record supplementary budget of NT$607.63 billion, about US$19 billion, equal to a fifth of the general budget the legislature had passed three weeks earlier. NT$233.8 billion would go to CPC, against losses running back to 2020 that the war deepened, and NT$187.5 billion to

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[510] Kevin Li, "The Iran War Tests Taiwan's Energy Resilience," Atlantic Council, EnergySource, March 19, 2026, https://www.atlanticcouncil.org/blogs/energysource/the-iran-war-tests-taiwans-energy-resilience/.

[511] Bank of Korea, *Economic Outlook* (Indigo Book), May 2026, released May 28, 2026, which put Taiwan's maximum LNG reserve at 11 days against 30 for Korea and 19 for Japan; reported in "Bank of Korea: Concerns over Taiwan's Power Shortage Due to LNG Reliance and Middle East Conflict," *Asia Economy*, May 28, 2026, https://view.asiae.co.kr/en/article/2026052817511867640.

[512] June gas data from the Ministry of Economic Affairs, as reported by Kpler, https://www.kpler.com/zh-tw/blog/stronger-june-power-sector-gas-burn-lifts-taiwan-lng-demand-despite-q4-coal-recovery (2.76 billion cubic meters, up 0.05 on the year; gas-fired output up 0.37 TWh and coal-fired output down 0.74 TWh on lower coal availability). At the model's assumptions, 2.76 billion cubic meters is about seven cargo-equivalents a week (2.76 / 1.36 / 0.065 x 7/30), a conversion of consumption, not a count of arrivals. Kpler forecasts 2026 demand at 24.2 million tons, against 23.75 million imported in 2025 (customs, preliminary, as reported by LNG Prime). The outcome scored is the absence of rationing; modeled inventory levels are not published and are not scored.

[513] S&P Global Commodity Insights, May 29, 2026 (CPC's spot tenders; American LNG deliveries to Taiwan of about 1.33 million tonnes from March to May, against 0.44 million a year earlier). No published record ties particular cargoes bought by Taiwan to Germany's refill, so the vessels named in earlier drafts are not cited.

[514] TechNews, April 1, 2026 (CPC's 41.58% increase in its gas price to Taipower); Focus Taiwan (CNA), September 18, 2026, https://focustaiwan.tw/business/202609180019 (NT$71.1 billion absorbed from March to August).

holding down fuel, gas and power prices, together nearly three times the package's NT$145.69 billion for weapons. Officials said it would not add to the national debt. The legislature has yet to pass it.[515]

This is the economy the AI build-out runs through. The statistics agency expects growth of 11% this year, the fastest since 1987, and exports up 41%, the fastest in half a century, on the servers and chips the cloud companies are buying, and TSMC alone uses about a tenth of the island's power. The physical forecast failed. Its fiscal side held in direction. Electricity rates were held on September 18, although Taipower reported costs that would justify a 12.83% increase, and the next review was set for December, after November's local elections. The war's fuel bill for the chips the AI build-out depends on has moved onto Taiwan's public accounts, and the timing of the review keeps a possible increase off voters' bills until after the vote, the same electoral deferral running in Washington on the same calendar.[516]

The forecast of a shortage was right about the quantity and wrong about its form. The system converts a shortage into a debt for as long as someone can still borrow. The missing gas arrived as a premium paid at sea, as a loss on a state utility's books, as a supplementary budget, and as dark hours in Pakistan, which turned down spot cargoes at the asking price, while Bangladesh could fill only two of its last five tenders.[517] Hsinchu kept its lights. Why pay? Because a blackout in those fabs is the one physical event the claims on the machine

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[515] Focus Taiwan (CNA), September 3, 2026, https://focustaiwan.tw/politics/202609030018 (the record NT$607.63 billion request; NT$233.8 billion for CPC, whose deficits have accrued since 2020 partly from price smoothing; NT$187.5 billion for price controls and subsidies on fuel, household gas, electricity, domestic air travel, taxi fuel, fertilizer, fishing-fleet oil and harbor fees; the officials' statement on the national debt); Taipei Times, September 4, 2026 (the package's lines, NT$145.69 billion for weapons included); CNA, September 4, 2026, https://www.cna.com.tw/news/aipl/202609040138.aspx; The Star (Reuters), August 14, 2026 (the general budget passed). These are proposed sums. CPC's line also covers losses incurred before the war, and none of these sums is an addition to Taipower's absorbed costs.

[516] Focus Taiwan (CNA), August 14, 2026 (the statistics agency's forecast of 11.05% growth, a 39-year high; merchandise exports of US$903.6 billion, up 41.19%, the fastest in 50 years, on AI and cloud infrastructure spending); Kevin Li, Atlantic Council, March 19, 2026 (TSMC about a tenth of power use); Focus Taiwan (CNA), September 18, 2026 (rates unchanged for October; costs that would justify a 12.83% increase; the next review in December). On August 10 the economics minister, Kung Ming-hsin, said there was "no election consideration" (Taiwan News, August 10, 2026). The electoral reading is this work's inference.

[517] Zafar Bhutta, "Gas Firm Rejects Costly Spot LNG Bids," *Express Tribune*, May 12, 2026, https://tribune.com.pk/story/2607600/gas-firm-rejects-costly-spot-lng-bids; "LNG Crisis Drives Import Costs Up," *Financial Express* (Dhaka), 2026, https://thefinancialexpress.com.bd/trade/lng-crisis-drives-import-costs-up.

could not survive. A treasury stepped in so that the price would never have to find the thing. This is what it means, in cargoes, for a market to stay irrational longer than its critics can stay solvent: a solvent buyer can postpone the physical event, and the only question is whose solvency is being spent.

The LNG leg reached the grid at the far end of the Suez corridor. Pakistan's power division announced on August 29 that regasified LNG cargoes had failed to arrive on time, leaving a 3,600-megawatt shortfall at the evening peak, and ordered nightly load-shedding of up to three hours, with furnace-oil plants brought back online. Pakistan, host of the talks that produced the Islamabad memorandum signed by Washington and Tehran in June, was rationing electricity on the cargoes the strait no longer delivered.[518]

On the buffer

Latin America and Africa supply the copper, lithium, cobalt, platinum-group metals, food and Mexican manufacturing chains on which the American economy and its defense industry draw. So far the cost has stayed in the system, in acid at double its old price and in phosphate plants idled for want of sulfur.

In the Horn of Africa many households face these costs with few reserves, while war and displacement obstruct their responses; displacement is the channel through which the pressure would spread. Ethiopia's war resumed on September 23 amid fuel shortages: Ethiopia buys most of its fuel from Kuwait and Saudi Arabia, and analysts tied the shortages to the Hormuz closure and the Houthi blockade of Saudi Arabia.[519] On October 8 Ethiopia told the UN Security Council that Eritrea had invaded Tigray. Eritrea called the report a pretext for an Ethiopian war aimed at the port of Assab.[520]

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[518] Pakistan Power Division statement, August 29, 2026. The division ordered load management of 90 minutes to three hours nightly and attached an apology to consumers. Pakistan hosted at Islamabad the talks that produced the 60-day memorandum Washington and Tehran signed in June.

[519] Reuters explainer via TimesLIVE, October 2, 2026 (fighting resumed September 23; UAE a major backer of Abiy), https://www.timeslive.co.za/news/africa/2026-10-02-explainer-why-renewed-fighting-in-ethiopias-tigray-risks-a-regional-war/; Critical Threats Project, August 6, 2026 (Ethiopia imports nearly half its fuel from Kuwait and about 38% from Saudi Arabia; Hormuz and the Houthi blockade worsened shortages), https://www.criticalthreats.org/analysis/ethiopia-tplf-drc-fdlr-rwanda-red-sea-saudi-houthi-somalia-fgs-us-aussom-africa-file-august-6-2026.

[520] Al Jazeera, "Ethiopia and Eritrea accuse one another of launching war," October 9, 2026 (Gedion's letter to the Security Council; Yemane on X), https://www.aljazeera.com/news/2026/10/9/ethiopia-and-eritrea-accuse-one-another-of-launching-war; CNBC Africa (Reuters), October 9, 2026 (letter dated October 8; up to 60 km; ACLED on drone strikes near Adigrat), https://www.cnbcafrica.com/2026/ethiopia-calls-for-immediate-withdrawal-of-eritrean-troops-in-letter-to-un; Bloomberg, "Ethiopia Vows to Defend Itself Against Eritrean Incursion," October 9, 2026,

Each of these regions is paying for the act that produced the cardiac event: Taiwan in public money, Europe in buffers drawn down, the Gulf in refining capacity, Latin America and Africa in harvests still to be counted. The United States also depends on the chips, industrial goods and stable trade these regions supply. Damage that they initially absorb can therefore return to the American economy through higher costs and disrupted production.

Lost consumption has absorbed part of the supply shock: households and firms are going without, and the buffers that remain are thinner. JPMorgan's commodity desk wrote on September 17 that for the first time since the war began it had no baseline view and could not model the endgame. By its count, the market had absorbed the largest disruption on record by cutting consumption 4.4 million barrels a day and by drawing 555 million barrels of stock over the course of the war, about a third of the 1.6 billion the bank had expected. Demand destruction did the work the reserves were built to do.[521]

On the reserve

The strategic petroleum reserve's draw was finite, and the slack behind it would burn in order: exports at record volumes from multi-decade-low domestic inventory, which could not last without a domestic price spike; China's pause in stockpiling, a switch Beijing could

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https://www.bloomberg.com/news/articles/2026-10-09/ethiopia-vows-to-defend-itself-against-eritrean-incursion.

[521] JPMorgan, Oil Markets Weekly, "Dry Powder," by Natasha Kaneva, Lyuba Savinova and Artem Fakhretdinov, September 17, 2026 (Reuters via Investing.com; Rigzone, September 21; Quartz, September 18). The four red lines and gasoline at $4.37: Business Today, September 18, 2026, https://www.businesstoday.in/markets/stocks/story/oil-prices-red-lines-crossed-no-baseline-view-jpmorgan-sees-90-fair-value-556318-2026-09-18, and Moneywise, September 2026, https://moneywise.com/news/economy/jpmorgan-oil-price-forecast-iran-war. Stocks 555 million barrels lower against 1.6 billion expected: Cailianshe, September 19, 2026, https://www.cls.cn/detail/2487645. Also the IEA's September oil market report as summarized by Carbon Brief, September 16 (world demand down 2.5 million barrels a day in 2026, the first annual fall since 2020), https://www.carbonbrief.org/analysis-global-fossil-fuel-emissions-set-to-fall-in-2026-amid-hormuz-crisis and https://www.iea.org/reports/oil-market-report-september-2026; the EIA Weekly Petroleum Status Report for the four weeks to September 18, 2026 (products supplied up 0.5% on the year, gasoline down 0.8%, distillate up 0.3%, distillate stocks 12.7% lower), the American window against the world figure, https://www.eia.gov/petroleum/supply/weekly/archive/2026/2026_09_23/wpsr_2026_09_23.php. JPMorgan had assumed four economic red lines that would push the administration to a deal: crude at $100, gasoline near $5, headline inflation at 4% and the 10-year Treasury yield near 5%. Six months into the war, crude was above $100 and the 10-year at 5%, with no deal; gasoline, at $4.37, had not reached its line, though it stood at a record for the season. Morgan Stanley separately estimated a drawdown of 4.8 million barrels a day from inventories.

flip back when it chose; and demand destruction through lower refinery runs, recession with a softer name.

The number the statute protects is the whole stock in storage, and the number that matters is what the pumps can reach. The auditors found in May that more than a quarter of the booked inventory could not be drawn, and by the end of August about 184 million barrels were deployable against 286.6 million on the books. Using the reserve also wears it out: each drawdown enlarges the salt caverns and shortens their working lives. An instrument sized for a ninety-day interruption is being consumed by one nearly three times as long and still running.[522523524525526527]

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[522] Rogelberg, Sasha. "Depleted U.S. Strategic Oil Reserves Risk Damaging Salt Caverns." Fortune, August 17, 2026. https://www.fortune.com/2026/08/17/depleted-us-strategic-oil-reserves-risk-damaging-salt-caverns-iran-war/.

[523] U.S. Government Accountability Office, Strategic Petroleum Reserve, GAO-26-106918 (2026), 36–38, especially Table 2: effective drawdown capacity of 2.700 million barrels a day against a design rate of 4.415 million as of December 2025. https://www.gao.gov/assets/gao-26-106918.pdf.

[524] EIA, Weekly Petroleum Status Report, series WCSSTUS1 and WCESTUS1, weeks ending March 27 through September 4, 2026, with DOE Monday releases; the ceiling of about 3.5% of active inventory a week, this work's model from the plateau data and not a measured figure; the operational-minimum band as stated by OilPrice, September 2026. From March 27 to September 4 the series show the reserve falling from 415.1 to 285.4 million barrels and commercial stocks from 461.6 to 424.1 million, a combined draw of about 167 million barrels, near 1.04 million a day: https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCSSTUS1&f=W and https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCESTUS1&f=W. The model generalizes the observed plateau of about 1.2 million barrels a day through May and June; the weekly share it yields depends on how much of the booked inventory is counted as active, so the 3.5% is an approximation whose precision rests on that count.

[525] U.S. Government Accountability Office. Energy Security: Congress and DOE Need a Unified Plan to Align Priorities and Investments for the Strategic Petroleum Reserve. GAO-26-106918, May 29, 2026, publicly released June 26, 2026, 37–38. https://www.gao.gov/assets/gao-26-106918.pdf

[526] Energy Policy and Conservation Act, 42 U.S.C. § 6241(d) and (h), especially § 6241(h)(2). https://www.law.cornell.edu/uscode/text/42/6241

[527] The readings for July 24 and August 28 are EIA's weekly stocks for the strategic reserve. Delivering the whole of the roughly 43 million barrels still owed would have taken the stock to about 243 million, below the statutory line; that is a subtraction, not a forecast of deliveries. The deployable estimate subtracts Rapidan Energy's July minimum of 103 million barrels behind outages from the August 28 stock and assumes those outages still held; it is this work's arithmetic, not an official figure, and it is not the measure the statute

The reserve can lose its room to manage prices before its tanks are empty. Through August the lagged physical data arrived,[528] while China's forward signals ran the other way: fuel export curbs relaxing, run rates rising, prompt Gulf purchases resuming, the stockpiling switch flipped back. Kpler, the ship-tracking firm, wrote the headline itself: why the real oil shock may only begin when China returns.

The buildout and the war meet in a single project when the buildout's sharpest critics describe it. The technology writer Edward Ongweso Jr. reads the trillion-dollar solicitations of Gulf sovereign wealth as the pitch of a successor anchor.[529] The funds that once recycled oil surpluses into Treasuries are being asked to finance a compute infrastructure meant to become, in the pitch's own words, "as integral to the world as oil is." Allied dependence would be secured by two legal levers already in place. The CLOUD Act lets American authorities compel providers subject to U.S. jurisdiction to produce data within their possession, custody or control wherever it is stored.[530] The foreign direct product rule, an export control, extends American licensing to specified foreign-made goods produced with covered American technology, software or tools.[531] Read structurally, the proposal is the petrodollar succession attempted from inside, dollar demand re-anchored on compute rents where it stood on crude.

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uses. Congress was not in session to take the subtraction up: the continuing resolution signed on September 2 runs to December 11, and the House was out until after November 3.

[528] QatarEnergy force majeure extensions (Edison, July 28; Bloomberg, August 28, 2026), copy at https://sg.finance.yahoo.com/news/qatar-extends-lng-force-majeure-003610853.html; ICIS cargo counts via Reuters (18 cargoes against 509 a year earlier, copy at https://www.investing.com/news/stock-market-news/as-war-strands-qatari-gas-for-6-months-us-sales-rise-and-european-stocks-plummet-4876264?ampMode=1; exports down 96%); Kpler, August 2026 (Middle East arrivals 2.71 million barrels a day against 2.43 in July), https://www.plataformamedia.com/en/2026/08/10/china-alone-is-absorbing-the-drop-in-asias-oil-imports-caused-by-the-iran-war-its-1-2-billion-barrel-stockpile-means-it-doesnt-have-to-buy-more-yet/.

[529] Edward Ongweso Jr., interviewed by Isaac Pound, "AI Is Failing to Boost Productivity," The Tech Report, Times Radio, August 2026 (podcast release August 27), at 7:02 to 8:34, on Gulf sovereign wealth, oil and the dollar, https://www.youtube.com/watch?v=UJ_SNBMd6v4.

[530] U.S. Department of Justice. "Justice Department Announces Publication of White Paper on the CLOUD Act." April 10, 2019. https://www.justice.gov/archives/opa/pr/justice-department-announces-publication-white-paper-cloud-act.

[531] U.S. Bureau of Industry and Security. Export Administration Regulations, section 734.9, "Foreign-Direct Product (FDP) Rules." https://www.bis.gov/regulations/ear/734.

The protection has been tested on the product. Iranian drones struck Amazon's data centers in Bahrain and the Emirates in the war's first week, and in September the company told its customers that what had been stored only there could not be restored, the damage in Bahrain having crossed more zones than its redundancy was built to lose. The replacement anchor is being sited within range of the weapons that are breaking the old one.[532] The war at the strait and the solicitation in the Gulf are one operation observed at two sites, the old anchor defended by demonstration while the replacement is financed on belief. The old anchor's enforcement is failing at the chokepoint and the new anchor's product at the price list, so the succession from inside runs on the only fuel the two failures leave, the credit of the sovereign being succeeded.

The war's number is credibility: the demonstration that American force can still open a strait. The thing was the capacity to hold it, in ships that can be replaced and interceptors that can be refilled. The demonstration was ordered by a patient who could no longer tell the two apart. The price found the thing within weeks, in the insurance market, and everything since has been an effort to keep that price from reaching the pump and the bond. The buyers who can still borrow are spared: Taiwan paid, and Europe drew on its stores. Pakistan sat in the dark. What is fed in is the strategic reserve and the public budget of every importer. What is consumed is the Gulf's capacity to produce and the alliance's belief in the guarantee. The war was a reach for two of the old ways out, new territory to command and a settlement written by the victor. It has shown that both are closed.

This is wrong if passage through Hormuz returns on the old terms, with American enforcement and no Iranian toll or permit, and stays that way.

XIX. The Sovereign

The sovereign is the organ that rescues the others. The number it defends is the yield on its own debt, and the thing behind the number is its ability to borrow from lenders who are free to refuse.

Offshoring helped build China's industrial capacity and made the American economy more dependent on it. With demand weakening in the core, China faces pressure to find other buyers or absorb more of its own output. The divergence began in 2008. After the financial crisis, the United States restored asset prices and bank balance sheets through Treasury bailouts and a Federal Reserve balance sheet that grew from about $900 billion to about $4.5 trillion between 2008 and 2014. In November 2008 China announced a package of 4 trillion yuan, much of it for physical infrastructure.[533] That package and the decade of

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[532] CNBC, September 15, 2026, copy at https://www.thenationalnews.com/future/technology/2026/09/15/amazon-web-services-unable-to-restore-bahrain-data-network-knocked-out-by-iran/; Amazon Web Services service notices of the same date.

[533] Federal Reserve, H.4.1, total assets, https://fred.stlouisfed.org/series/WALCL (about $900 billion before 2008 and $4.5 trillion after three rounds of quantitative easing); State

investment after it built the world's largest high-speed rail network, ports handling a large share of global container traffic, and a telecommunications system that leapt to 4G and then 5G.[534] Both responses worked on their own terms. The American recovery restored the financial system, more complex than before. The Chinese recovery built physical capacity that financial engineering cannot undo. That expansion also left local-government debt and property overbuilding, costs the later China chapters weigh alongside the capacity it created. In 2008 the divergence in productive capacity was chosen and not allowed: each system correctly identified what its institutional capacity could deliver, financial intermediation in one case and productive scale in the other, and committed to it.

Eighteen years later, I infer that those choices would make a failure of the AI capex circuit terminal for the dollar system and survivable for Beijing, an inference the failure itself would test.

The hyperscaler capex is denominated in dollars. The $1.1 trillion laid down from 2023 through June 2026 and the more than $1.5 trillion guided for 2026 and forecast for 2027[535] are being financed, at pre-war energy pricing, by capital markets that treat US Treasuries as the global risk-free rate. The valuations of the hyperscalers, Nvidia and the laboratories all rest on discount rates derived from that dollar yield curve. The curve depends in turn on

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Council of the People's Republic of China, November 2008 (the 4 trillion yuan package).

[534] Guo Zhuxue, president of China State Railway Group, at its annual work conference, as reported by China Daily, January 4, 2026 ("the world's largest and most advanced high-speed railway network," 50,400 kilometers at the end of 2025 against 37,900 five years earlier), copy at https://english.henan.gov.cn/2026/01-04/3281485.html; Ministry of Industry and Information Technology, January 2026, as reported by the Associated Press of Pakistan (4.838 million 5G base stations at the end of 2025), https://www.app.com.pk/?p=1153367; Ministry of Transport, as reported by China Daily, July 3, 2026 (China's ports handled 354 million TEU of containers in 2025), copy at https://www.hellenicshippingnews.com/chinas-ports-handle-record-cargo-container-volumes-in-2025/; Antonia Saratsopoulou, Container News, August 10, 2026, on DynaLiners' estimate of 1.012 billion TEU of global container port throughput in 2025, https://container-news.com/global-container-port-throughput-exceeds-1-billion-teu-in-2025/. On these two figures China's share of world container throughput was about 35% in 2025.

[535] Financial Times capex tally (McMorrow, Rosner-Uddin and Murphy, "Big Tech AI Spending Spree Tops $1tn," July 31, 2026, https://www.ft.com/content/dcf3873e-7b32-4a24-a90d-3bccf1d2c996): $1.1 trillion from 2023 through June 2026 for Amazon, Microsoft, Alphabet, and Meta, and $725 to $745 billion guided for 2026; Evercore and Bank of America put 2027 above $1 trillion, https://static.newsfilter.io/0be64741dff2186fabc2b085db7699b7.html. Morgan Stanley's forecast for the five largest spenders, Oracle included, rose to about $805 billion for 2026 and $1.116 trillion for 2027 at the start of May (as reported by Benzinga via Yahoo Finance, May 5, 2026, https://finance.yahoo.com/economy/articles/david-sacks-says-ai-could-220110765.html).

the legal, financial and market institutions behind the currency and, in part, on the oil trade's demand for dollars that the petrodollar still supplied. The whole fictitious capital structure is denominated in a unit whose backing is being physically contested in the Strait.

China is laying a second settlement system beneath the dollar's. Its Cross-Border Interbank Payment System, CIPS, provides a route for cross-border payments when dollar channels are restricted. In early April 2026 it cleared 1.22 trillion yuan in a single day, a record well above its daily average.[536] Iran has announced it will accept Hormuz transit tolls in yuan or cryptocurrency.[537]

Western officials, in reporting by the Wall Street Journal, have documented an explicit oil-for-goods structure: Chinese refinery payments to Iran sit in controlled accounts at small Chinese banks cut off from dollar trade and pay Chinese contractors directly. In the first half of 2026, 52.9% of China's cross-border receipts and payments were in renminbi, against 10% in 2017.[538] The petrodollar bypass has been institutionalized in the months since the war began. In 1914 the successor held the production while the incumbent dominated international clearing; this successor holds the production and is building an international alternative of its own.

The IMF's reserve series, published three times since the war began, records no flight. The dollar's share was 56.4% in the fourth quarter of 2025, a revised 57.18% in the first quarter of 2026, and 56.70% in the second. The proposed shift away from dollar assets is in the store function, the assets in which central banks preserve purchasing power, while the dollar can remain the medium, the currency used to price and settle transactions. The renminbi's share argues the same way: 2.18% at the end of 2024, a revised 1.98% in the first quarter of 2026,[539] and 2.11% in the second. In that second quarter dollar holdings

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[536] FXC Intelligence (Joe Baker), "CIPS Volumes Rise as China Expands Payments Infrastructure," June 19, 2026: the single-day record of RMB 1.22 trillion ($178.5 billion) in April; average daily volume a record RMB 920.5 billion ($133.5 billion) in March, easing to RMB 674 billion ($99 billion) in May, https://www.fxcintel.com/research/analysis/cips-volumes-may-2026. The record day carried nearly 42,000 transactions.

[537] Chainalysis. "Iran's Strait of Hormuz Crypto Toll." April 2026. https://www.chainalysis.com/blog/iran-strait-of-hormuz-crypto-toll/.

[538] State Administration of Foreign Exchange, press conference on foreign exchange receipts and payments in the first half of 2026, July 17, 2026 (Li Bin: the renminbi 52.9% of all cross-border settlements, up 1.3 percentage points on 2025), https://www.safe.gov.cn/en/2026/0717/2441.html; the office's figure for the first half of 2025 was 53%, press conference of July 22, 2025, https://www.safe.gov.cn/en/2025/0722/2328.html.

[539] IMF, Currency Composition of Official Foreign Exchange Reserves, data briefs of April 2, 2025 (renminbi 2.18% in 2024Q4) and July 1, 2026 (1.99% in 2026Q1 from 1.95% in 2025Q4, exchange-rate valuation the dominant driver of the change), https://data.imf.org/en/datasets/IMF.STA%3ACOFER. The release of September 30, 2026 revised the first-quarter renminbi share to 1.98%.

were largely unchanged, so the smaller dollar share does not record net sales of dollars.[540] The series that records the shift is gold's share of official reserves: the store being chosen is metal, which no one can freeze. The CIPS volume records a different thing, the second rail being laid for the medium against the day the first is closed.

The molecules moved whether or not the disclosures did. OPEC crude production fell in April to 20.55 million barrels a day on Bloomberg's survey, the lowest since 1990.[541] The IEA's May report put affected Gulf producers' April output 14.4 million barrels a day below pre-war levels.[542] That figure joins output shut in because it cannot be shipped with capacity physically damaged, and the two will not return on the same schedule: Iran has degraded Gulf production capacity to a degree no analyst projected before the war began.

On the divergence

Against that physical record, the S&P 500 has reached new all-time highs. Approximately 10 trillion dollars of market capitalization were added between the March 30 low and mid-May, while the largest oil supply disruption in IEA history ran through the markets the equity index is supposed to price.[543] A rising index does not by itself establish that investors

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[540] IMF, Currency Composition of Official Foreign Exchange Reserves (COFER), release of September 30, 2026, for the second quarter of 2026: the dollar's share 56.70% against a revised 57.18% in the first quarter, with dollar holdings largely unchanged; the renminbi's share 2.11% against a revised 1.98%; valuation effects limited in the quarter, https://data.imf.org/en/datasets/IMF.STA%3ACOFER.

[541] Bloomberg OPEC survey for April 2026 (Grant Smith and others, May 6, 2026: 20.55 million barrels a day, down 420,000), copy at https://www.worldoil.com/news/2026/5/6/opec-output-falls-to-36-year-low-as-iran-war-cuts-gulf-supply/; Middle East Economic Survey; Reuters OPEC survey, May 2026 (16.13 million barrels a day from the eleven members remaining after the UAE's exit on May 1), copy at https://www.investing.com/news/commodities-news/opec-oil-output-lowest-since-at-least-2000-as-us-blockade-squeezes-iran-reuters-survey-shows-4735618.

[542] International Energy Agency. Oil Market Report—May 2026. May 13, 2026. https://www.iea.org/reports/oil-market-report-may-2026.

[543] Peter Tuchman, as reported by Traders Union, May 1, 2026 (more than $8.3 trillion of S&P 500 market capitalization added in 24 trading days), https://tradersunion.com/news/market-voices/show/1981159-sp-500-trillion-rally/, and May 15, 2026 (more than $10 trillion added since the March low, with the 14th record close since March 30), https://tradersunion.com/news/market-voices/show/2056479-sp500-record-highs-market/; Alex Lawler, Reuters, March 12, 2026, on the IEA ("The war in the Middle East is creating the biggest oil supply disruption in history"), copy at https://www.bnnbloomberg.ca/business/2026/03/12/world-faces-largest-ever-oil-supply-disruption-on-middle-east-war-iea-says/. The index closed at a record 7,818.93 on October 6, 2026, above its August record: "How Major US Stock Indexes Fared Tuesday 10/6/2026," La Nación (news services), October 6, 2026,

expect the economy to recover. They may expect the companies in the index to keep earning, or a rescue to lift their prices before wider losses arrive. I propose a further limit: a trade intended to protect against a crisis still depends on institutions that will settle it. A breakdown of those institutions is harder to protect against, which can give traders a reason to concentrate on outcomes they can buy and sell.

The index is a price for the claims. It can rise for as long as each holder expects to sell to the next, whatever is happening to the economy that has to pay them.

Buying long bonds against a recession relies on a familiar protection: when market yields fall, an existing bond's fixed payments become more valuable and its price rises.[544] A war that restricts supply can leave recession alongside inflation or financing pressure. Long-term bonds can then lose market value as yields rise even while the government keeps paying them. Stocks and bonds can both disappoint under those conditions.

On the long end

The long end supplies a separate test of whether bonds are providing that protection. The 30-year Treasury yield has tested 5% three times since 2023, the level the Bank of America strategist Michael Hartnett calls the door to doom, a warning and not in itself a proof of systemic failure. The third test came on May 4, 2026, with an end-of-day close of 5.02%, and the yield also closed above 5% from May 12 to 27. It was back above the level at the close from July 7, and reached a 19-year high over 5.3% in the third week of August.[545] The first two tests resolved through the classical safe-haven bid: yields press the ceiling, equities fall, capital flees into bonds, their prices rise and their yields come back down, and the cycle resets. That mechanism requires a buyer at the top of the move. In May the buyer

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https://www.lanacion.com.ar/usa/how-major-us-stock-indexes-fared-tuesday-1062026-nid06102026/.

[544] U.S. Securities and Exchange Commission, Office of Investor Education and Advocacy. "Investor Bulletin: Fixed Income Investments — When Interest Rates Go Up, Prices of Fixed-Rate Bonds Fall." June 26, 2013. https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-86

[545] Michael Hartnett of Bank of America, as reported by Investing.com, May 1, 2026 (the 5% 30-year yield as the "Maginot Line"; if it breaks, the "door to doom starts to open"), https://www.investing.com/news/stock-market-news/break-of-this-threshold-could-open-the-door-to-doom-for-markets-bofas-hartnett-4652396; U.S. Treasury, Daily Treasury Par Yield Curve Rates, an end-of-day series, for the 30-year: 5.11% on October 19, 2023, 5.08% on May 21, 2025, 5.02% on May 4, 2026, 4.95% on May 8, 5.06% on July 17 and 5.31% on August 17, https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202605, and the same page for October 2023, May 2025, July 2026 and August 2026. The same series also has the 30-year closing above 5% from May 12 to 27, 2026 (5.18% on May 19), and from July 7 to 16.

was a forced seller. Japan did not buy Treasuries when yields rose to 5%. It sold foreign-currency securities to defend the yen. Rising American yields widened the interest-rate gap with Japan, putting more pressure on the currency and prompting further intervention and sales.[546]

What was new in 2026 was the pace and the structural endpoint. For the largest official holder, the classical safe-haven bid that broke every previous test but one has been replaced by its opposite.[547] Both times the bid failed, in March 2020 and this summer, the state restored it: the Fed's purchases then, and in 2026 the facility that lends against the bonds so the creditor need not sell.[548] Amsterdam after 1780 stopped lending and began to

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[546] Japan's Ministry of Finance intervention and reserve data (¥9.8 trillion in May 2026; foreign-currency securities down $50.4 billion); Bloomberg and the Japan Times, September 6 and 7, 2026, copy at https://www.japantimes.co.jp/business/2026/09/07/markets/japan-treasuries-sell-for-yen/.

[547] A bond whose price falls when shares fall insures a portfolio less, and investors ask more to hold it. Matteo Leombroni, Carolin Pflueger and Adi Sunderam estimate that the change in Treasuries' stock-market betas from positive to negative accounts for half the decline in long-term Treasury yields from the 1980s to the 2010s: "Risk and Return in Government Bonds," April 16, 2026 version, https://cpflueger.github.io/carolinpflueger_repository/LeombroniPfluegerSunderamBondRisks_20260416.pdf.

[548] Japan's Ministry of Finance intervention and reserve data (¥9.8 trillion in May 2026, foreign-currency securities down $50.4 billion; ¥15.4 trillion through August 26, down $87.8 billion, reserves to $995 billion); Bloomberg and the Japan Times, September 6 and 7, 2026, copy at https://www.japantimes.co.jp/business/2026/09/07/markets/japan-treasuries-sell-for-yen/; the Financial Times and CNBC, August 1 to 4 (the Treasury's yen purchase of July 31 funded in euros, copy at https://economictimes.indiatimes.com/news/international/business/us-treasury-undertakes-intervention-in-yen-market-ft-reports/articleshow/132779315.cms and copy at https://www.boursorama.com/bourse/actualites/le-tresor-americain-intervient-pour-soutenir-le-yen-apres-l-intervention-du-japon-selon-le-financial-times-e1ae5f98cdd85fce856f7bbc5fdc6771; the Treasury secretary's proposal of August 3 to enlarge the FIMA repo facility beyond its $60 billion limit per counterparty, a proposal and not an implemented change, https://pressroom.versantmedia.com/cnbc/press-releases/cnbc-transcript-us-treasury-secretary-scott-bessent-speaks-cnbcs-squawk-box-2 and https://www.federalreserve.gov/monetarypolicy/files/FOMC_RulesAuthPamphlet_20260 1.pdf; the finance minister's statement that future intervention would be funded through the facility); Mark Sobel, OMFIF, August 7; Cecchetti and Schoenholtz, August 22 (FIMA borrowing near zero through the facility's history); Treasury TIC, July 2026 (foreign net long-term purchases $40.6 billion, officials $44.4 billion, bills up $38.8 billion), https://home.treasury.gov/news/press-releases/sb0631/; March 2020 (foreign official sales above $100 billion, the Fed's purchases and the facility's creation). Bessent's own

bring its money home, and the City in 1915 and 1917 sold its portfolio to pay for a war. This summer the largest creditor sold to defend its currency. In both earlier cases the declining center was the creditor, and the paper it gave up was the rising power's; this summer the creditor is an ally, and the paper at risk is the incumbent's own.

Japan's Treasury position, the largest foreign holding at about $1.1 trillion in July on the September 16 table,[549] was built on a hedged-return calculation that has inverted, and everything that funded it is now contracting. The structural advantage now runs to Japanese government bonds and not to currency-hedged Treasuries, whose return is the bond yield less the cost of protection against the dollar-yen exchange rate.[550] On July 10 policy was pointed the same way, when the finance minister stated that she intends to encourage pension funds, including the Government Pension Investment Fund, the world's largest, toward domestic assets.

Japan need not sell its existing holdings to raise American borrowing costs. A reduction in new buying can do it: TD Economics estimated on March 31 that weaker Japanese demand could add 20 to 50 basis points to the ten-year Treasury yield over the medium term.[551] The deficit has only to lose the buyer who was bidding without regard to price.

On July 31 and August 1 the suppression of that mechanism became official policy. The Treasury and Japan executed the first joint yen-buying intervention since 1998. The New York Fed sold euros through Goldman and Morgan Stanley so that the operation would not touch the strong-dollar fiction. The demonstrative bid that Richard Whitney, the exchange's acting president, carried onto the floor for the bankers' pool in October 1929 survives in the gesture, performed this time for cameras in one currency while the execution hides in another.[552] Japan's finance ministry said in the same breath that it would draw on the Fed's repo facility for foreign official holders, which lets it raise dollars without selling its Treasuries, and the Treasury Secretary vowed not to hesitate on further rounds. The

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account: CNBC, Squawk Box, August 4, 2026, transcript. The limit per counterparty: Federal Reserve, FOMC rules and authorizations, January 2026.

[549] Treasury International Capital, Major Foreign Holders of Treasury Securities, release of September 16, 2026 (Japan $1,103.9 billion at the end of July, against $1,239.3 billion at the end of February), https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html.

[550] BlackRock Investment Institute, Weekly Commentary, September 8, 2026 (a Japanese investor "can now earn about 3% on a 10-year Japanese government bond versus 2% on a 10-year Treasury" hedged into yen with rolling three-month forwards), https://www.blackrock.com/us/individual/literature/market-commentary/weekly-investment-commentary-en-us-20260908-why-japan-matters-for-us-bond-market-investors.pdf.

[551] Vikram Rai and Anusha Arif, "What Happens in Japan May Not Stay in Japan," TD Economics, March 31, 2026, https://economics.td.com/gbl-what-happens-in-japan-may-not-stay-in-japan. The figure is a modeled estimate of the demand effect, not an observed change in yields.

operation was narrated as friendship. In substance it is a bond market rescue that cannot say its own name, because naming its purpose would trigger the run it exists to prevent. The forced-seller loop has stopped being this work's projection. The two governments that would have to absorb it now spend reserves, and lend against the bonds, to keep it from running.

The Wall Street Journal has described Treasury Secretary Scott Bessent as leaning into a role as bond trader in chief, and reporting from inside his circle lays out the toolkit. It includes buybacks, the Treasury's repurchases of its own existing bonds, doubled and redoubled as needed; issuance shifted to the short end; the possible elimination of long-dated maturities like the 20-year bond; and, on the account the Fox Business correspondent Charles Gasparino gave of executives briefed on it, a short-term operation as the midterms approached.[553] The critic is his former boss at Soros Fund Management, the investor Stanley Druckenmiller, whose Wall Street Journal op-ed of August 24 describes the feedback: once markets believe the Treasury is defending a price, every rise in yields becomes a test of official resolve, and the operations must grow to survive the tests.[554] His second line prices the destination: a 30-year Treasury yield forced to 5 and a half percent to clear is an invoice, not a crisis.[555]

On the arithmetic

The condition the Treasury's and the Fed's tools exist to manage is arithmetic, and it is already running. The rates alone were seen in 2001, the same 10-year, the same inflation, the same overnight rate. The difference is the stock they now price: debt held by the public near 100% of output against a third of it then, and an interest bill near a trillion dollars in fiscal 2025.[556] In fiscal 2025 net interest outlays were equivalent to about 37 cents for each

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[552] John Kenneth Galbraith, The Great Crash, 1929 (Time Reading Program edition, 1962), 104: Whitney, vice-president of the Exchange, acting as president in Simmons's absence, bid 205 for Steel.

[553] Charles Gasparino, "How Scott Bessent Is Getting Ready to Slam Wall Street's 'Bond Vigilantes': 'Fear of God,'" New York Post, August 25, 2026, and his LinkedIn post of about the same date, https://www.linkedin.com/posts/charles-gasparino-8817b75_coop-treasury-secretary-scott-bessent-will-activity-7497684753945456640-ck_N, from Wall Street executives in regular contact with Bessent.

[554] Stanley Druckenmiller, "Let the Bond Market Speak," Wall Street Journal, August 24, 2026, https://www.wsj.com/opinion/let-the-bond-market-speak-81529d74.

[555] Stanley Druckenmiller, "Let the Bond Market Speak," Wall Street Journal, August 24, 2026, https://www.wsj.com/opinion/let-the-bond-market-speak-81529d74; Charles Gasparino, New York Post, August 25, 2026, from Wall Street executives in regular contact with Bessent, https://nypost.com/2026/08/25/business/how-scott-bessent-is-getting-ready-to-slam-wall-streets-bond-vigilantes-fear-of-god/.

[556] Treasury, Monthly Treasury Statement for September 2025, and the Financial Report of the United States Government for fiscal 2025, net interest $970 billion,

dollar of individual income-tax receipts.[557] The average coupon, the rate paid on the debt already outstanding, still sits well under the market's price for new money, so the notes and bonds issued in the cheap decade roll into paper priced by the current curve and walk the average cost upward regardless of what the deficit does.[558]

Debt relative to output becomes harder to stabilize once the average rate on the existing debt rises above nominal growth, the growth of output including price increases, while the government also runs a primary deficit, spending other than interest in excess of revenue. Past that point the ratio compounds on its own. That line has not been crossed: the average rate was 3.52% in September and nominal growth near 6. The gap closes from both sides, since the cheap decade's debt rolls upward and part of the 6 is the capex circuit's spending booked as product.

Issuance has migrated toward bills to avoid pricing the long end, which converts the sovereign into a floating-rate borrower, the adjustable-rate mortgage of the state. That is the doom loop met in the chapter on the mind. The first turn is observed in the interest bill. Whether the loop compounds depends on that crossing, the average rate on the debt rising over nominal growth while the primary deficit runs.[559]

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https://fiscal.treasury.gov/system/files/2026-03/FY-2025-Financial-Report-3-19-2025%28Final%29.pdf and
https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0925.pdf.

[557] Office of Management and Budget, historical tables: debt held by the public 31.4% of GDP in fiscal 2001; Treasury, Monthly Treasury Statement for September 2025: debt held by the public $30.3 trillion, 99% of GDP at the end of fiscal 2025 on the Congressional Budget Office's count (The Budget and Economic Outlook: 2026 to 2036, February 2026), and net interest $970 billion and individual income tax receipts $2,656 billion in fiscal 2025 (Table 9),
https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0925.pdf.

[558] The curve on October 5, 2026: the 10-year at 5.31% and the 30-year at 5.66% (October 1: 5.24% and 5.61%; October 7: 5.28% and 5.67%), Treasury, Daily Treasury Par Yield Curve Rates, https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2026.

[559] In Marx's terms (Capital, vol. 3, part V, on interest and profit of enterprise) as Henrique de Abreu Grazziotin restates them (IIPPE 2026, and his "Crisis and the Credit System in Marx," 2016): the profit of enterprise is the rate of profit less the rate of interest, and the phase in which the first falls while the second rises ends in crisis; a rate of interest above 5% against a build-out whose return is negative on current forecasts is that phase. The rival reading of the same debt: Re and Brunazzi, "The Terroristic Phase of Debt Imperialism" (IIPPE 2026, slides 9 to 10 and 21 to 24), the center sustaining its dominance by issuing internationally demanded liabilities and absorbing foreign surpluses, a terroristic phase posed as an open question; Roberts against it (September 17, 2026). What distinguishes privilege from fragility is the rate the stock rolls into against nominal growth, the test this paragraph sets, and who holds the marginal bid, which the trading record of

The loop's demand side has meanwhile thinned to three layers. The foreign official bid is managed and not willing, since the yen operation exists to keep the largest creditor from selling. The levered basis trade is quicker to sell in a crisis than any official creditor. And the demographic bid, the annuity complex, absorbs sovereign and hyperscaler supply out of the same finite stock. By August the hyperscaler supply had a projection: of the $11 trillion the builders plan to spend on AI through 2029 on the July count of the research firm SemiAnalysis, about five is to be borrowed on the August estimate of its founder, Dylan Patel, a second mortgage market queued beside the sovereign's two trillion a year.[560]

The popular form of the belief is a question that circulated the week the debt crossed 40 trillion: if 10 trillion did not matter, how does 20, and if 20 did not, how does 40. That extrapolation considers the debt's size and leaves out the rate charged on it. Ten, twenty and thirty trillion were each crossed with rates falling or low enough for the stock to roll into, which is why none of them mattered. Forty was crossed on August 18 with an interest bill past a trillion dollars and a Fed that cannot hold the rate down without abandoning the long end.[561]

The 10-year closed at 3.97% on February 27, the Friday before the war began, and at 4.71% on August 18, the day the debt crossed 40 trillion, a rise of 74 basis points. The war accounts for part of those 74 basis points, through oil and expected inflation, through war borrowing, and through the premium investors ask for holding long debt in uncertainty. The central bankers' bank says the three cannot be told apart, so the war's share cannot be stated exactly. Commentators also named a buyers' strike at the long end, mortgage

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2026 answers.

[560] SemiAnalysis, the research firm, July 2026 (cumulative AI capital spending 2024 to 2029 about $11.1 trillion; AI-related debt outstanding about $7.1 trillion by 2029); Dylan Patel on the Dwarkesh Patel podcast, August 25, 2026 (about $5 trillion of the total to be borrowed). The $7.1 trillion is a stock and the $5 trillion a flow, and they are not added, https://www.dwarkesh.com/p/dylan-patel-3.

[561] Treasury, Debt to the Penny (total public debt outstanding $39,986.7 billion on August 17 and $40,047.4 billion on August 18, 2026; $40,284.0 billion on October 7), https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/; U.S. Treasury, Daily Treasury Par Yield Curve Rates (the 10-year at 4.71% on August 18), https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202608; Congressional Budget Office, Monthly Budget Review: August 2026, September 9 (net interest $1,052 billion for October to August), https://www.cbo.gov/publication/61984.

hedging, and the AI companies' own debt issuance.[562][563][564] None of these is a measurement. I read the strait among the causes: a strait the sovereign does not administer now moves the rate it pays.

The war term in that arithmetic has a number. The fiscal 2027 request is 1.5 trillion dollars for the Department of Defense, a 42% increase in one year, with 52.9 billion for critical munitions,[565] and the June supplemental asked 21 billion more for munitions.[566] Congress

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[562] Trading Economics, "US Treasury Yields Hold Rebound," August 21, 2026. On October 1 Bloomberg's Mark Cudmore said there "seems to be a buyer strike at the long end" and that the mortgage-backed securities dynamic in the US was "exacerbating moves around hedging"; he also named "good growth" as "the driver in the US" of higher yields. Trading Economics put the surge since July down to AI-company debt issuance and federal deficit spending.

[563] Mark Cudmore (Bloomberg Markets), "French Bonds Flirting With Crisis Mode: Market Analysis," Bloomberg Television, October 1, 2026, with Anna Edwards, Guy Johnson and Tom Mackenzie (growth as the driver at 0:24 to 0:28, copy at https://piqmarkets.com/tv/bloomberg/investors-are-driving-government-bond-yields-higher-EXKVXbVHFvs; the buyer strike and mortgage hedging at 1:24 to 1:32, quoted from the broadcast). Neither he nor the anchors attributed the rise in US long yields to the war, the deficit or AI debt.

[564] Treasury, Debt to the Penny, https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/; Monthly Treasury Statement, fiscal 2025 and 2026, https://fiscaldata.treasury.gov/datasets/monthly-treasury-statement/; Treasury, Daily Treasury Par Yield Curve Rates, 2026 (the 10-year at 3.97% on February 27, the last close before the war began, and at 4.71% on August 18), https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2026. Gross interest ran to roughly $1.17 trillion through the first 10 months of fiscal 2026, up about 15% on a year earlier.

[565] U.S. Department of War, "Department of War Releases the President's Fiscal Year 2027 Budget," press release (a request of $1.5 trillion, "a 42% increase over current funding levels"), https://www.war.gov/News/Releases/Release/Article/4466038/department-of-war-releases-the-presidents-fiscal-year-2027-budget/; Fiscal Year 2027 Budget Request Overview, generated April 20, 2026 ($52.9 billion for critical munitions), https://comptroller.war.gov/Portals/45/Documents/defbudget/FY2027/FY2027_Budget_Request_Overview_Book.pdf; the budget briefing ($31.8 billion to expand production capacity and build land-power missile stockpiles, including Patriot, THAAD, PrSM and MRC), https://comptroller.war.gov/Portals/45/Documents/defbudget/FY2027/FY2027_Budget_Request.pdf.

[566] The continuing resolution signed on September 2, 2026 runs to December 11. The supplemental request of June 24, 2026 asked $87.6 billion, $67.1 billion of it for the Pentagon and $21.0 billion of that for munitions: Congressional Research Service, Insight

has passed neither: a continuing resolution, temporary funding at the previous year's levels, runs to December, and the munitions contracts being announced draw on the fiscal 2026 appropriations and reconciliation acts.[567] The ammunition and missile stocks are being refilled on paper: contracts that deliver over years, and requests that have not passed.

The case for the dollar surviving all of this as the medium, the currency that prices and settles trade, is inertia, and it is the strongest case the incumbent has. The dollar's share of reserves has fallen from 71% at the euro's birth to 56.7% on the IMF's count for the second quarter of 2026.[568] It stands on one side of nearly 9 foreign-exchange trades in 10 on the 2025 survey of the Bank for International Settlements.[569] There is no other market deep enough to hold the world's liquidity, and a currency used to price oil, denominate debt, and settle trade keeps those functions long after the state behind it has lost the others. That is the economist Barry Eichengreen's argument and the political economist Herman Mark Schwartz's, and I grant it as far as it goes.[570]

IN12700, June 30, 2026, https://www.everycrsreport.com/reports/IN12700.html.

[567] Jerry McGinn and A.J. Dilts, "How Quickly Can the DOD Rebuild and Recast the Munitions Industrial Base?," CSIS, August 25, 2026 ("Some contracts, utilizing funds in the FY 2026 appropriations and reconciliation acts, are being announced," among them Lockheed Martin's PAC-3 MSE award of up to $58.6 billion in July, to triple production by 2030, and its seven-year THAAD award of up to $35 billion in June), https://www.csis.org/analysis/how-quickly-can-dod-rebuild-and-recast-munitions-industrial-base.

[568] IMF, Currency Composition of Official Foreign Exchange Reserves, data brief of July 1, 2026 (57.13% in 2026Q1, https://data.imf.org/en/datasets/IMF.STA%3ACOFER; 56.42 in 2025Q4). The IMF data brief of July 1, 2026 for the 1.99% and for gold passing Treasuries almost entirely on valuation. Goldberg, Hannaoui and Parthasarathy, Liberty Street Economics, September 2, 2026, on country data that end in 2023: the fall in the dollar's share came from a handful of large holders led by China and Russia, and the 62 other countries with data raised theirs slightly. The fourth quarter's 56.4% was the dollar's lowest reserve share since 1994.

[569] SWIFT, RMB Tracker, March 2026; BIS Triennial Survey (2025) for the foreign-exchange share, https://www.bis.org/publications/triennial-central-bank-survey-foreign-exchange-and-over-the-counter-otc-derivatives-markets-2025. Eichengreen, Exorbitant Privilege (2011); Schwartz, Subprime Nation (2009). The dollar's share of export invoicing sits near 54%, and its share of interbank messages set a record of 51% in March 2026.

[570] IMF, Currency Composition of Official Foreign Exchange Reserves, release of September 30, 2026: the dollar's share 56.70% in the second quarter of 2026, against about 57% in the first (57.13% in the data brief of July 1, since revised to 57.18%), https://data.imf.org/en/datasets/IMF.STA%3ACOFER; Federal Reserve, FEDS Notes, on the international role of the U.S. dollar, 2025 edition, July 18, 2025 (the share's peak of 72% in 2001), https://www.federalreserve.gov/econres/notes/feds-notes/the-international-

A currency can remain convenient for trade while governments become less willing to hold their reserves in it.[571] The reserve freeze of February 2022 exposed the risk that those holdings could become inaccessible. Governments concerned about being sanctioned can therefore continue invoicing in dollars while shifting part of their savings into gold.[572] That is why official holdings fell some $130 billion from March to July on the Treasury's holder table while the financial centers held the growth.[573] Gold's market value has exceeded that of euro-denominated official reserves since 2024, and the June survey of 74 central banks

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role-of-the-u-s-dollar-2025-edition-20250718.html; BIS Triennial Survey (2025) for the foreign-exchange share, https://www.bis.org/publications/triennial-central-bank-survey-foreign-exchange-and-over-the-counter-otc-derivatives-markets-2025; Eichengreen, Exorbitant Privilege (2011); Schwartz, Subprime Nation (2009).

[571] Department of the Treasury, Federal Reserve Bank of New York and Federal Reserve Board, "Foreign Portfolio Holdings of U.S. Securities as of June 30, 2025" (April 2026): holdings $35.3 trillion, up $4.5 trillion in the year, https://home.treasury.gov/news/press-releases/sb0482; the equity share 56%, from 23% in 2009; foreign purchases of long-term U.S. debt $880 billion, $530 billion of it Treasuries and agencies; private purchases of long-term Treasuries $570 billion while official investors sold about $100 billion; official holdings $6.9 trillion. The inflow goes to the index and the corporate paper while the official bid for the sovereign's own retreats.

[572] Arslanalp, Eichengreen and Simpson-Bell, "Our Underappreciated International Reserve System," NBER Working Paper 34478 (2025), for the renminbi's declining reserve share and the active buying of gold by emerging-market central banks, and their earlier "Gold as International Reserves: A Barbarous Relic No More?", IMF Working Paper 2023/014 (2023), on the motives behind central banks' gold accumulation. World Gold Council, Central Bank Gold Reserves Survey, June 16, 2026 (76 institutions, surveyed February 5 to May 19): a record 45% plan to add gold and 74% expect a lower dollar share in five years; Gold Demand Trends, July 30, 2026: net purchases of 289 tons in the second quarter, led by Poland and China, with Russia and Turkey selling and the first half the lowest since 2022. The liquid part of Russia's National Wealth Fund, its accounts at the Bank of Russia, is held in yuan and gold, with a sliver of rubles, about 190 billion yuan and 131 tons of gold on September 1, 2026, and both were sold for rubles in January and March to fund the deficit; the fund's other assets are deposits and stakes at home (Finance Ministry data for September 1, 2026, as reported by Interfax, September 7, 2026, and for July 1 by TASS, July 3, 2026).

[573] Treasury, Treasury International Capital data for July 2026, released September 16 (foreign official net purchases of long-term US securities $44.4 billion in July, https://home.treasury.gov/news/press-releases/sb0631/; all foreign holdings of Treasuries $9,248 billion, the United Kingdom up $58.4 billion to $998.3 billion, mainland China $618.0 billion; the Major Foreign Holders table for March and July for the official line).

by the Official Monetary and Financial Institutions Forum recorded, for the first time, more of them intending to cut the dollar over the decade than to add it.[574]

The metal now has a clearing house east of London. Hong Kong's government-owned precious-metals clearing company opened on July 7, 2026, with 11 banks on its board, a delivery link to the Shanghai Gold Exchange's vault in the city, and a stated path to 2,000 tonnes of capacity.[575] Gold vaulted there answers to Hong Kong's law and Beijing's, not London's.

The smile, the dollar's bid in a crisis, is the last instrument belief has left, and the September buyback is the test of whether the bid still holds the long end. The 10-year rose to 4.86% on the announcement of September 9, and the immediate decline the buyback sought was not observed.[576]

Read this beside the corporation. A firm that buys its own shares to hold up their price is using its balance sheet to produce a number. A Treasury that buys its own bonds to hold down their yield is doing the same thing with the last balance sheet there is.

On repression

Financial repression directs savings into government debt on terms that can erode what creditors are repaid. The canonical definition, from the economists Carmen Reinhart and Belen Sbrancia, lists its instruments: nominal rates held under inflation, captive domestic audiences, restrictions that keep creditors from leaving, and nonmarketable placement of

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[574] OMFIF, Global Public Investor 2026, June 2026 (90 institutions, 74 of them central banks; a net 3% intending to reduce dollar holdings over one to two years and a net 8% over ten; a net 30% intending to add gold). ECB, The international role of the euro, June 2025, Chart 7, and June 2026, official-reserve discussion. Gold exceeded euro-denominated assets at market value in 2024. The comparison is sensitive to the gold price. ECB reports: https://www.ecb.europa.eu/pub/pdf/ire/ecb.ire202506.en.pdf; https://www.ecb.europa.eu/press/other-publications/ire/html/ecb.ire202606.en.html

[575] Hong Kong government press release, July 7, 2026, on the Precious Metals Central Clearing Company and the first stage of Delivery Connect with the Shanghai Gold Exchange; RTHK, July 7; South China Morning Post, July 8, 2026 (the 11 banks), https://www.scmp.com/business/markets/article/3359651/hong-kongs-gold-clearing-and-settlement-firm-joins-shanghai-exchange; Shanghai Gold Exchange announcement of June 25, 2025, on the certified vault at Bank of China (Hong Kong); the memorandum between the clearing company and the exchange of January 26, 2026. The banks on the company's board include JPMorgan, HSBC, UBS, Citi and Standard Chartered.

[576] Kate Duguid, George Steer and Myles McCormick, Financial Times, September 9, 2026 (the 10-year at 4.86% on the buyback announcement, its highest since late 2023), https://www.ft.com/content/2476992f-c9fe-4992-887d-f34c81c100ab; on the Treasury's par curve, an end-of-day series, the 10-year closed at 4.83% on September 9 and 4.95% on September 10, https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202609.

the debt. The economist Gita Gopinath's May analysis warned that fiscally constrained governments would reach for heterodox measures: price controls, nationalizations, pressure on central banks to absorb fiscal risk, and financial repression by name.

Parts of the response are already in operation, and the match with those instruments is partial. Treasury buybacks and issuance steered toward bills lean on long rates without capping them. The lending facility lets foreign official holders raise cash against their bonds without selling them. In August the Treasury secretary proposed enlarging it beyond its $60 billion limit per counterparty, and Tokyo said its next intervention would be funded through it and not by sales.[577] These measures encourage creditors to keep the paper. They do not yet cap long rates or compel creditors to stay. The questions asked aloud about the central bank's role in the Treasury's next intervention are the pressure Gopinath's warning named.

The inflation that makes repression work is present: on the personal consumption expenditures index, or PCE, inflation was 3.4% in August. What is missing is the cap beneath it: long rates stand more than a point above inflation, and the chairman spent his first Jackson Hole promising to fight that inflation.[578] The regime is a forecast until the 10-year yield less PCE inflation goes below zero, and establishing it would also take a binding cap on long rates or a rule that keeps savers in the paper. The toolkit of repression and the fight against inflation cannot both be credible: a central bank tightening the short end for

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[577] CNBC, August 3 and 4, 2026 (the August 4 interview, https://www.cnbc.com/video/2026/08/04/watch-cnbcs-full-interview-with-treasury-secretary-scott-bessent.html); Bloomberg, August 5 (the proposal to enlarge the FIMA repo facility, copy at https://news.bloombergtax.com/daily-tax-report/scott-bessent-draws-on-hedge-fund-instincts-to-help-rescue-yen; Japan's Ministry of Finance on using the facility for future intervention); Mark Sobel, OMFIF, August 7; Cecchetti and Schoenholtz, Money, Banking and Financial Markets, August 22, 2026 (FIMA loans near zero from 2020 to August 2026). Instrument by instrument, against Reinhart and Sbrancia's list: the administered long end, buybacks and issuance steered toward bills, is in operation and leans on long rates without capping them; the trial balloon for eliminating whole maturities is a proposal, and it would limit new issuance of those bonds without making any existing debt nonmarketable; the arrangement that lends against the creditor's bonds so the creditor need not sell resembles a captive audience, foreign edition, though it is voluntary borrowing against collateral and compels no one to hold the paper.

[578] BEA, Personal Income and Outlays, August 2026, released September 30, 2026 (the PCE price index up 3.4% from a year earlier, 3.0% excluding food and energy), https://www.bea.gov/news/2026/personal-income-and-outlays-august-2026; the July reading, released August 26, was 3.7%; U.S. Treasury, Daily Treasury Par Yield Curve Rates (the 10-year at 5.28% on October 7, 2026), https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2026; Kevin Warsh, "In Our Time," Jackson Hole, August 28, 2026 ("the Fed's predominant focus right now should be on prices"), https://www.federalreserve.gov/newsevents/speech/warsh20260828a.htm.

its credibility and a Treasury administering the long end for its solvency are two arms of one government pulling against each other in public.[579]

The yen operation of July 31 and August 1 has an exact precedent, and the precedent measures the distance fallen. In the 1980s the surplus ran the other way, and it ran on belief. Japanese capital financed the Second Cold War escalation because, in the words of a Japanese bank's chief economist at the time, the money went to America "because you are fundamentally strong": the reversal of Marx's dictum that declining centers finance rising ones, celebrated in the American literature as proof of enduring primacy. The hegemon then harvested its creditor. Japanese investors reversed their capital exports in mid-1987. The finance ministry declined to support that November's Treasury auction, and Giovanni Arrighi's verdict stood: Japan probably never got its money back, because after the post-1985 devaluation the dollars it was repaid were worth far fewer yen than the dollars it had lent.[580] Cultural barriers, political barriers, and the structure of American corporate ownership blocked the redistribution of assets that every prior financial expansion had delivered, and no change of leadership followed.

Forty years later the same two parties conduct the same transaction with the polarity of management inverted. Then, Washington could devalue against its creditor and absorb the consequence. Now it sells euros to prevent the creditor from selling at all, because the long end can no longer absorb what the creditor holds, the Exchange Stabilization Fund's doctrine of non-intervention joining the list of buffers spent to maintain the appearance that no buffer is needed. Washington can still seek Japan's cooperation in sustaining the dollar system. China's industrial capacity, reserves and independent deterrent give it more scope to refuse the terms Japan accepted. A financing arrangement with an allied creditor cannot simply be extended to that rival.

One remaining emergency tool would be yield curve control: the Federal Reserve announces it will buy as many long-term government bonds as necessary to hold their interest rate under the market level, however much money it must print. The United States held such a cap until the Treasury-Fed Accord of March 1951, and Japan ran one from 2016 to 2024. The catch is what happens when it stops. The bond bear market that followed the cap's removal ran for 30 years and ended with long rates near 15% and short rates over 20% in 1981.[581] Rates rose across those decades under changing inflation, growth and

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[579] Wee, Philip. "Bessent Leaned against the USD." DBS Group Research, September 1, 2026. https://www.dbs.com.hk/treasures/aics/templatedata/article/generic/data/en/GR/macro_strategy/092026/260901_fx.xml

[580] Arrighi, The Long Twentieth Century, 16–17; Kotkin and Kishimoto, The Third Century (1988), 122–3, as quoted there.

[581] Jessie Romero, "Treasury-Fed Accord," Federal Reserve History, written as of November 22, 2013 (the long-term rate implicitly capped at 2.5 percent from 1942; the accord announced on March 4, 1951), https://www.federalreservehistory.org/essays/treasury-fed-accord; Bank of Japan, "Quantitative and Qualitative Monetary Easing with Yield Curve Control," September 21, 2016,

policy, and the sequence alone does not prove that lifting the cap caused the rise. This work's reading is that a market held down demands a premium when it is released.

The second tool is restructuring the government's existing debt. Stephen Miran, who chaired the Council of Economic Advisers until February 2026, set out two routes in his November 2024 paper for the paper foreign officials hold: an accord terming it out as far as century bonds, and a fee withheld from its interest. The second is unilateral, and both are backed by tariffs, security and liquidity as bargaining power. The first route's century bond would still fall due on a fixed date, a finite extension, unlike the perpetual claims on Castile's taxes into which the crown converted its bankers' advances by decree. Generalized to the entire stock of Treasury debt, which is this work's scenario and not the paper's, the move would take the average interest rate the government pays from roughly 4% down to 1%, cutting the federal interest bill by about three-quarters overnight. The cost would be brutal: at an unchanged market rate, a coupon cut from 4% to 1% takes a quarter off a 10-year bond's price and half off a 30-year's.[582] I expect such a unilateral rewrite to raise Washington's borrowing costs sharply and damage its access to bond markets for a prolonged period, because foreign governments and private investors would demand a steep premium after watching their existing loans rewritten.

Repression and restructuring can buy time by imposing losses on creditors, but doing so can weaken confidence in future repayment. Avoiding those losses leaves the interest bill and refinancing pressure to grow. Neither policy rebuilds the productive capacity needed to ease the constraint.

Repression's way out of the debt, and who pays for it, can be read in advance from the same cap. Under yield curve control, from 1942 to 1951, the United States capped the long bond at 2.5% while inflation ran in spurts to 8 and 14, and roughly a third of the war debt's real value passed from bondholders to the sovereign inside a decade.[583] The bondholder

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https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2016/k160921a.pdf, and the policy statement of March 19, 2024, https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2024/k240319a.pdf; FRED, monthly averages: the 10-year Treasury yield at 15.32% in September 1981, https://fred.stlouisfed.org/data/GS10.txt, the effective federal funds rate at 19.10% in June 1981, https://fred.stlouisfed.org/data/FEDFUNDS.txt, and the bank prime loan rate at 20.50% in August 1981, https://fred.stlouisfed.org/data/MPRIME.txt.

[582] The par-bond arithmetic at a 4% discount rate with the coupon cut to 1%: a price near $76 with ten years to run, $48 with thirty and $26 with a hundred, losses of 24%, 52% and 74%; Stephen Miran, A User's Guide to Restructuring the Global Trading System, Hudson Bay Capital, November 2024, on terming foreign official holdings out as far as century bonds under an incentive-driven accord, https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf.

[583] Jessie Romero, "Treasury-Fed Accord," Federal Reserve History (the 2.5 percent cap from 1942 to the accord of March 1951),

received the promised dollars, but those dollars bought less. A similar policy could preserve the nominal payments on retirement savings while reducing their purchasing power, transferring resources to the debtor without an explicit tax on the saver.

But the postwar template rested on three conditions the present lacks: capital trapped inside Bretton Woods, growth that was organically real, and a currency without a competitor. Repression run with a leaky trap and a hollow growth number must either be harsher or fail faster. The harsher path is being prepared through prudential rules that steer institutions into the sovereign's paper, though none of them yet stops a saver from leaving. The leverage-ratio revision of 2025 lets the largest banks hold more Treasuries against less capital. The stablecoin statute, law since July 2025, requires every dollar token to be backed by a reserve of cash and short Treasury paper. The market-structure bill, still pending, is being hurried behind them. Allocation mandates on retirement accounts are, on this work's forecast, the next rule in the sequence.[584] If it fails faster, the leak shows up as gold, of which official holders bought a record for the quarter in the second, as the defended yen, and finally as the reserve function itself.[585]

The doom loop dissolves instead of detonating, in the unit of account, and the unit is the last buffer on the list. The 1933 exit is closed. That cure, devalue and reflate into slack, required the idle capacity and cheap inputs of a peacetime glut, demand the only missing term and the press able to supply it. This crisis arrives inside a war that has already consumed the slack where it binds: the strait, the interceptor inventories, the 7-gigawatt power gap, memory scarce enough to reach Apple's own products. Expansion meets supply walls in those sectors and shows up there as higher prices instead of more output.

Repression is the residual exit, chosen by elimination and not preference: 1929's mechanics in 1973's price environment. It remains the exit for as long as three conditions

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https://www.federalreservehistory.org/essays/treasury-fed-accord; Federal Reserve Bank of Minneapolis, Consumer Price Index, 1913- (annual average inflation of 8.5% in 1946, 14.4% in 1947, 7.7% in 1948 and 7.9% in 1951), https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator/consumer-price-index-1913-; Carmen M. Reinhart and M. Belen Sbrancia, "The Liquidation of Government Debt," NBER Working Paper 16893, March 2011 ("the annual liquidation of debt via negative real interest rates amounted on average from 3 to 4 percent of GDP a year"), https://www.nber.org/papers/w16893. On the same index, prices rose from 18.0 in 1945 to 26.0 in 1951, so a claim fixed in dollars lost about 31% of its real value in six years (this work's arithmetic).

[584] The enhanced supplementary leverage ratio revision (2025); the GENIUS Act (July 2025), section 4(a)(1), the list of permitted reserve assets; the Clarity Act, pending. Each is a rule that manufactures demand for the sovereign's paper without a vote on the price.

[585] The 1844 descent: the reserve list ties the coin's issue to the stock of the sovereign's paper as the Bank Charter Act of 1844 tied the note issue to gold, the Currency School's error Marx recorded (Grazziotin, IIPPE 2026, and "Crisis and the Credit System in Marx," 2016, on Marx's critique of the Act).

hold: restructuring stays ruled out by what it would cost in market access; the political system will not levy the taxes or make the distributional changes that would pay the bill openly; and a rescue small enough to fund in sound money is too small to hold the marks. It would be the fourth in a series that altered a sovereign's obligation, each on different holders: Spain's defaults on its bankers from 1557, the pound's exit from gold in 1931 on its holders abroad, the dollar's exit from gold in 1971 on the official creditors, and repression on the savers who hold the paper at home.[586]

The repression path has a stability condition of its own. The postwar precedent worked for a fourth reason beyond the trapped capital, the real growth, and the unrivaled currency: it was embedded in a settlement that paid labor while it taxed the rentier. The 1946 strike wave was bought off with real wage gains, housing and recognition, so the household's lived trajectory ran upward through the confiscation and no one organized on the bondholder's behalf. Durable repression requires some version of that trade, a link between the word's financial sense, rules that shape interest rates and where savings go, and its political sense, compliance bought with material provision. The German Democratic Republic, a case of the political kind, ran a sealed-exit society for 40 years on anti-fascist legitimacy and an exchange of provision for compliance, employment, housing, security, and died when the provision stagnated against a visible competitor and its guarantor withdrew. A state that demands compliance while withdrawing provision, mandates proposed in the same fiscal year as the food-stamp (SNAP) and Affordable Care Act cancellations, has no stable trade on offer at all. It would be attempting the confiscation without the operating premise repression once enjoyed: invisibility.

Today's savers can see nominal yields and inflation estimates immediately, which may make losses more visible: the 2026 saver carries a device that displays them daily, between the debt-collection videos the algorithm serves her. Whether this changes political behavior is part of the argument to be tested. The precedent for mandated allocation under inflation that savers can see is Argentina: the corralito of 2001, deposits frozen to save the banks and the middle class taking hammers to the bank doors, followed in 2008 by the outright nationalization of the private pension system. I read the aftermath of 2001 as a warning about what can follow a failed revolt. The rupture was real: the assemblies, the piqueteros, the unemployed workers' movements known for road blockades, five presidents in two weeks. Parts of the piquetero movement were drawn into government networks through relief programmes, employment and housing.[587] The rupture failed for want of an organization prepared to take and hold, leaving discontent that the right would

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[586] Lenin, September 1917: the issue of paper money is "the worst form of compulsory loan" and "most of all affects the conditions of the workers, of the poorest section of the population" (Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 10).

[587] Epstein, Edward C. "Perpetuating Social Movements amid Declining Opportunity: The Survival Strategies of Two Argentine Piquetero Groups." European Review of Latin American and Caribbean Studies 86 (April 2009): 3–19. https://pdfs.semanticscholar.org/c583/12d01c587e796faf583782bf30b2da68e96a.pdf See pp. 6–7, 9–10 and 14–15.

later mobilize. A failed rupture can leave the grievances that produced it unresolved and weaken the organizations through which people tried to act. Rival movements can then recruit from the same discontent. Whether they succeed depends on what people learn from the defeat and what they are able to organize next.

On the visibility cascade

The February war struck the supply system. By July its costs were testing the financing of the AI boom. The third week of July is the proposed fuze: the point when rising borrowing costs and a repricing of AI claims began to expose whether continued financing could carry the gap. The chapter follows that exposure through different delays, from market prices to quarterly accounts and debts coming due. A series of losses that private buyers can absorb would count against the cascade reading. What successive interventions reveal is how much support remains and what it costs to keep the promises financed.

Three events inside two weeks mark it. On July 17 the 30-year yield closed above 5% during a shooting war, with no bid for safety arriving, and the American AI shares repriced in the same session on a Chinese model. On July 28, the day after Moonshot released its weights and the day the Chinese memory maker CXMT listed, Korea's index fell about 8% and tripped a circuit breaker, and state funds bought into the unwind. Two days later Situational Awareness, a $45 billion fund built on the thesis that the build-out pays and levered several times over, was margin-called and sold about $16 billion of its book

overnight to Citadel. The sale showed how large a block one private buyer would take. That is the measure the next unwind will be set against.[588589590591592]

The serious counter-scenario has to be named before events decide it: the correction that never cascades. In that reading there is no fuze, only trees falling in a forest: company-specific unwinds each absorbed by sideline money within days, each catalyst met by inflow

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[588] Korea Exchange; Reuters, July 28, 2026, copy at https://www.marketscreener.com/news/south-korea-s-kospi-drops-7-as-global-chipmaker-selloff-deepens-ce7f51ddd980f421. The halt at 10:13 a.m., down 8.02% at 6,213.51: Digital Today, https://www.digitaltoday.co.kr/en/view/85861/. The close at 6,023.66, down 10.84%: Money Today, https://www.mt.co.kr/en/stock/2026/07/28/2026072816223678548. It was the index's eighth circuit breaker of 2026 and the fourteenth market-wide halt on record; by late June the year had already logged roughly 30 sidecar activations, temporary pauses in program-trading orders, and five circuit breakers, both figures past the 2008 crisis tally.

[589] Korea Exchange investor data via Money Today, July 28, 2026: pension funds and other public investors, the National Pension Service among them, net buyers of 113.5 billion won on the day the benchmark closed down 10.84%, against foreign net sales of 18.9 trillion won over the month to the 28th, https://www.mt.co.kr/en/stock/2026/07/28/2026072816370062771.

[590] Financial Times and Wall Street Journal, July 30, 2026 (Citadel's overnight purchase of most of Situational Awareness's public equity book; the Financial Times's value of $16 billion for the book); CNBC, July 30, 2026 (assets of about $45 billion at the start of July); Erica Kollmann, Benzinga, August 21, 2026, citing CNBC and Reuters (leverage "as high as 400%"; deal talks beginning July 29 and closing within about 24 hours), https://www.benzinga.com/markets/hedge-funds/26/08/61362560. The reports do not say whether the leverage figure is gross exposure relative to net assets, and the discount has not been disclosed.

[591] Carolin Pflueger and Pierre Yared model circumstances in which a change in borrowing advantages permits a hegemonic transition without war. High borrowing capacity is a condition of that result in their model, not something established by the volume of outstanding American debt, and its non-war outcome is a possibility under stated conditions, not a prediction of this transition. Any connection to nuclear deterrence is this work's inference, outside the model. Carolin Pflueger and Pierre Yared, "Global Hegemony and Exorbitant Privilege," Becker Friedman Institute Working Paper 2024–95, August 7, 2024 version, https://bfi.uchicago.edu/wp-content/uploads/2024/08/BFI_WP_2024-95.pdf.

[592] U.S. Treasury, Daily Treasury Par Yield Curve Rates, July 2026, an end-of-day series (the 30-year closed above 5% on every trading day from July 7, at 5.09% on July 16 and 5.06% on July 17; it had also closed above 5% from May 12 to 27), https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202607.

because everyone not yet in the trade fears being the one who missed it. The scenario is real and describes every episode to date. It fails only if losses and new demands consume available capital faster than investment returns and new funding replenish it. What measures that balance is how quickly each forced sale is absorbed and at what price, and whether new money keeps pace with the losses. The physical buffers do not refill inside the window. The reserve drains toward its floor, the 2023 shift into bills was performed once, from a stronger position, and the yen was defended with the last uncommitted doctrine.[593]

I expect that staggered absorption and detonation will prove to be one process read at different points on a depletion curve. The critic Ed Zitron put it on October 9 as a slow boil: the cost of carrying the build-out rises by degrees, and the distressed end of the debt market shows the strain before anything breaks.[594] The test is whether an unwind arrives that the private layer cannot absorb. Any of three events would show it. The first is an emergency rescue by state-adjacent capital in the American core, taking the place Citadel took in July because no private buyer can be found, as distinct from the routine investments state-linked funds already make. The second is a large fund suspending redemptions outright, beyond the quarterly withdrawal limits the largest credit funds already enforce, with forced sales or losses spreading to other funds or to the banks that lend to them. The third is the wrapping insurer downgraded.

Neither liquidation nor a change of world leadership requires a single decisive date. The ending of an architecture is a process, underway over decades, and the events described here expose, one at a time, the absence of the recovery mechanisms that earlier resolutions depended on. The dates tracked here mark occasions when those weaknesses become visible and require a response. The account does not need a single crash day: refinancing, shortages and failed rescues can expose the same structural problem at different times.

The interventions themselves obey an arithmetic of their own. The bazooka doctrine of Henry Paulson, Treasury secretary in July 2008, held that displaying ample rescue capacity could prevent its use: a weapon displayed never has to fire.[595] The six weeks ending August 1 moved nearly every bazooka in the system from display to discharge: state funds

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[593] EIA, Weekly U.S. Ending Stocks of Crude Oil in SPR, release of October 7, 2026 (282.983 million barrels in the week ending October 2, against the 252.4-million-barrel line of 42 U.S.C. 6241(h)(2)), https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCSSTUS1&f=W; Treasury, Quarterly Refunding Statement, August 5, 2026, https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents/; Antonio O'Mullony, "Washington Buys Yen with Euros While the ECB Watches," Brussels Signal, August 7, 2026 (the Treasury's euros sold through the New York Fed for yen on July 31, the first joint operation with Japan since 1998, as reported by the Financial Times and confirmed to Reuters by two market sources), https://brusselssignal.eu/2026/08/washington-buys-yen-with-euros-while-the-ecb-watches/.

[594] The Tech Report, "'Banks Are Herd Animals': Ed Zitron on the AI Debt Slow Boil," October 9, 2026, https://www.youtube.com/watch?v=Jxr4VGs-5Zw (transcript supplied by the author).

absorbed the Seoul unwind, Citadel a forced liquidation of reported size, and the Treasury bought yen with euros at a disclosed size, while the reserve drew down on a published schedule against an audited floor. Discharge converts a deterrent into an inventory: the market stops fearing the weapon and starts counting the rounds, and each intervention discloses the size of the next. Each discharge spends a different resource, and what links the magazines is the credibility every discharge draws down.

The barrels defend the CPI, which defends the central bank's position, which defends the Treasury market. The euros defend the yen, which defends Japanese holdings of Treasuries. The repo facility lends against Treasuries to prevent the sale of Treasuries, a round made of the thing it protects. Every weapon spends some asset to defend the state's own liability, and the supply of assets that are not themselves claims on that liability is the true magazine. The Seoul circuit breakers, tripping in both directions, preview the weapon that remains when the magazines empty: suspension, allocation by administration instead of price. Financial repression does the same at the sovereign's scale, making buyers captive, capping the rate and paying them in money that buys less. Suspension always has an administrator, and which administrator, and for whom, is the question of which way the transition breaks.

The composition of demand for U.S. government debt was changing as well. China's holdings fell to $618 billion in July on the September table, the lowest since September 2008.[596] The official creditors move on a slower clock and by other means, by proposal and by shipment. Norway's fund proposed on September 4 to cut its government-bond weight from 70 to 50%, nearly $80 billion of its $215 billion in Treasuries, to be executed from 2027 and offset into other American paper. The Dutch central bank moved 86 of its 313 tonnes of gold out of New York and Ottawa, a change of custody that sells no dollar bonds, and Europe's largest pension fund had cut its Treasury stake by $12 billion over 2025.[597]

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[595] Paulson, Henry. Oral history interview. Miller Center, University of Virginia. https://millercenter.org/the-presidency/presidential-oral-histories/henry-paulson-oral-history.

[596] Treasury International Capital, major foreign holders, July 2026 (released September 16), via Reuters and The Standard: China $618.0 billion from $633.4 billion in June, down more than 11% on the year; Japan $1.104 trillion, down a third month; the United Kingdom up 6.2% to $998.3 billion; all foreign holdings $9.248 trillion from $9.298 trillion; net foreign sales of $3.6 billion of Treasury bonds and notes in July on a transaction basis, bills excluded, https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/npr_history.html.

[597] Reuters, September 4, 2026 (Norges Bank Investment Management letter), copy at https://www.streetinsider.com/Reuters/Norways%2B%242%2Btrillion%2Bsovereign%2Bfund%2Bproposes%2Bdeep%2Bcuts%2Bto%2BUS%C2%A0Treasury%2Bholdings/27027041.html?classic=1; De Nederlandsche Bank statement, September 2026; Bloomberg, January 23, 2026 (ABP), https://www.bloomberg.com/news/articles/2026-01-23/dutch-pension-abp-cut-us-treasury-stake-by-12-billion-in-2025; ECB, The international role of the euro, June 2025 and June 2026. Gold exceeded euro-denominated

The buyers replacing the official holders are leveraged intermediaries trading through London, Luxembourg and Brussels, quicker to sell in a crisis than patient official creditors.[598] The Treasury's own research office has counted them: hedge funds held $2 trillion of Treasuries at the end of 2025, a record 7% of the marketable debt. Part of their exposure sits in the basis trade, a bet on the small price gap between Treasury bonds and the futures contracts on them, financed with short-term repo borrowing at 15 to 20 times the capital committed. The Cayman funds hold more notes and bonds than any single class of investor.[599]

The holders that remain are the ones being paid to stay: the yen facility, the banks under the new ratio, the tokens under the new statute. Demand in both markets increasingly rests on these supports and on buyers who can leave quickly. Belief in another rescue has worn down all summer, and its buyers will leave at once, on the day staying costs more than leaving.

The sovereign's number is the yield on its debt, and the thing is lenders who are free to refuse and lend anyway. The number is produced by buying its own bonds, by shifting to bills, by selling euros so that Tokyo need not sell Treasuries, and by lending against the paper to keep it from being sold. The holders paid to stay are spared, and the saver is the one who will be asked to hold paper that loses value. What is fed in is the last stock of

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official reserves at market value in 2024. At the end of 2025 gold represented 27% of total official reserves, euro assets 15% and US Treasury securities 22%. Rising gold prices account for much of the change. Treasury securities are a subset of dollar assets, so their share cannot stand for the dollar's total reserve share. ECB reports: https://www.ecb.europa.eu/pub/pdf/ire/ecb.ire202506.en.pdf; https://www.ecb.europa.eu/press/other-publications/ire/html/ecb.ire202606.en.html

[598] Treasury International Capital, May 2026: foreign official holdings near $3.9 trillion, roughly flat, down 0.8% on the year ($3,845.9 billion against $3,877.1 billion in May 2025 on the September 16, 2026 vintage, https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/mfhhis01.txt); the United Kingdom $949 billion, up $139 billion; Belgium, Luxembourg, the Cayman Islands, and Ireland together above $1.7 trillion; Japan $1.14 trillion, down $96 billion from February.

[599] Office of Financial Research, "Hedge Funds' Cash Treasury Holdings Reach $2 Trillion," August 19, 2026, https://www.financialresearch.gov/the-ofr-blog/2026/08/19/hedge-funds-cash-treasury-holdings/; Federal Reserve, FEDS Note, June 2026 (basis-trade positions about $830 billion at September 2025, a third of $2.4 trillion of long exposure), https://www.federalreserve.gov/econres/notes/feds-notes/decomposing-hedge-funds-u-s-treasury-exposures-20260622.html; Federal Reserve, "The Cross-Border Trail of the Treasury Basis Trade," October 2025 (Cayman-domiciled funds the largest single holder of notes and bonds), https://www.federalreserve.gov/econres/notes/feds-notes/the-cross-border-trail-of-the-treasury-basis-trade-20251015.html; the leverage estimate of 15 to 20 times as reported by JPMorgan, https://www.jpmorgan.com/insights/podcast-hub/making-sense/treasury-basis-trade-in-focus. The $2 trillion was nearly three times the hedge funds' holdings of five years earlier.

assets that are not claims on the state itself: the reserve's barrels, the stabilization fund, the central bank's balance sheet. What is consumed is the capacity to rescue anyone else. Three ways out are settled here. Default would dissolve the unit in which every other claim is priced. Inflation and repression remain, against savers who can see them. And the stronger balance sheet that rescued the others in 1907, 1933, 2008 and 2020 is now the one in need of rescue.

This is wrong if the Treasury can borrow at the long end without managing its own market, and long yields fall when the Federal Reserve tightens.

XX. Iatrogenesis and Metastasis

The failures can reinforce one another because their treatments draw on resources the other circuits need. The AI build-out draws on electricity and grid capacity also needed by other industries and households. Climate damage adds to the work needed to maintain production and sustain households. Failed harvests and damaged homes can force people to move, while governments' efforts to secure supplies can intensify conflicts that damage those same supplies.[600]

The evidence bears first on American hegemony. The war raises energy costs, the response to inflation raises borrowing costs, and the AI build-out competes for power while promising savings partly through wage cuts. These pressures meet in the same households and businesses. They reinforce one another when protecting a creditor's claim or one state's supplies makes it harder for the people and producers on whom recovery depends to keep operating.

Iatrogenesis names the injury caused by the attempted treatment. In this case the physician and the patient are the same. Metastasis names its spread beyond the original site, through trade and finance into allies, creditors and possible successors. The effects can then return as lost orders, dearer imports or interrupted financing. The account begins with the war because that makes the chain easier to follow; the pressures in the world run in both directions.

The war reaches the core as a price, and the price is answered with a rate. The disruption restricted Gulf exports and damaged refining capacity. By September, Kpler's backfilled count put Gulf crude and condensate exports outside Iran back at their pre-war average, through the strait and bypass pipelines. Refined-product traffic through the strait remained far below its earlier level.[601] Crude closed above 100 on September 9 and diesel passed $6

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[600] IPCC, Climate Change 2022: Impacts, Adaptation and Vulnerability, Summary for Policymakers, B.1.7 and B.5, and chapter 7, FAQ 7.3; Alvarez, Benatiya Andaloussi and Stuermer, "Geoeconomic Fragmentation Threatens Food Security and Clean Energy Transition," October 3, 2023.

[601] Kpler, "Explainer: How Mideast Gulf Crude Exports Returned to Pre-War Levels," data as of September 29, 2026, https://www.kpler.com/blog/explainer-how-mideast-gulf-crude-exports-returned-to-pre-war-levels; CNBC, September 30, 2026,

within days, so the pump stayed where it was through every relief rally the announcements bought.[602] The Fed answered the price on September 16 with a quarter point, and a rate rise cannot reopen a strait.[603] What it does is present the war's bill a second time. It is charged to 40 trillion of debt as that debt is refinanced at higher rates,[604] and to the household under the median, whose auto loan was already written past 72 months and whose unpaid card was already in a collection suit.[605] The remedy for the war's inflation lands on the two balance sheets least able to carry it, the sovereign's and the wage earner's, and leaves the strait where it was.

The October 14 report put consumer prices up 3.7% over the year to September, and gasoline accounted for more than half of the month's increase.[606]

The buildout meets the household from the other side. It was financed on the promise of removing the wage, and the wage reaches its product at one remove: weaker wages reduce household purchases from the businesses that themselves buy AI, layoffs remove paid seats, and efficiency reduces spending per task. The realization circuit was under strain before a chip was placed in service, to a degree that depends on the new demand the technology creates and on contracts already fixed, and the seat-based vendors who are its first paying customers were marked down early in 2026 on the belief alone. The household that cannot borrow cannot buy, and it is also the buildout's last creditor: its retirement

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https://www.cnbc.com/2026/09/30/iran-war-strait-hormuz-gulf-oil-fuel.html. These series distinguish crude and condensate exports outside Iran, including bypass routes, from refined-product traffic through the strait.

[602] Brent settlement of September 9, 2026 ($101.21, Reuters); EIA, weekly retail diesel, September 14, 2026 ($6.285 a gallon, the first national average above $6), https://www.eia.gov/dnav/pet/PET_PRI_GND_A_EPD2D_PTE_DPGAL_W.htm.

[603] Federal Reserve, FOMC statement, September 16, 2026 (the target range raised a quarter point to 3.75 to 4%, by a vote of 12 to 0), https://www.federalreserve.gov/newsevents/pressreleases/monetary20260916a.htm.

[604] Treasury, Debt to the Penny (the debt past $40 trillion on August 18, 2026), https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/.

[605] Jonathan Gregory, "Auto Credit Access Improves Again in July as Yield Spreads Narrow and Approval Rates Climb," Cox Automotive, August 10, 2026 (Dealertrack data: 31.1% of new loans written for more than 72 months in July, a second month at the series' all-time high, against 26.3% a year earlier), https://www.coxautoinc.com/insights/jul-2026-cai/; on the collection suits, Lester Bird, Casey Chiappetta and Eshaan Kawlra, "Debt Collection Lawsuits Continue to Flood State and Local Courts," Pew Charitable Trusts, July 16, 2026, https://www.pew.org/en/research-and-analysis/articles/2026/07/16/debt-collection-lawsuits-continue-to-flood-state-and-local-courts.

[606] U.S. Bureau of Labor Statistics, Consumer Price Index, September 2026, released October 14, 2026, opening summary and Energy section. Monthly changes are seasonally adjusted; annual CPI changes are unadjusted. https://www.bls.gov/news.release/cpi.nr0.htm

accounts sit in the index the buildout is a third of, and its annuities in the private credit that funds the data centers. On one advocate's count the buildout was three-quarters of the first quarter's growth, the number the debt arithmetic leans on. Those links can transmit losses through growth expectations, collateral and household savings.

The remedies described here can transfer pressure to resources and balance sheets another layer needs. The barrels defend the CPI and, through it, the central bank and the Treasury market.[607] The reserve's deployable stock, roughly 184 million barrels at the end of August, is all the pumps can reach, a limit the statute's line, drawn on the whole stock stored, does not measure. The buybacks and the shift of issuance into bills defend the long end, and they turn the sovereign into a floating-rate borrower as the short rate rises. The euros sold in New York defend the yen, and the yen fell on Tokyo's hike that was meant to lift it. A physical reserve can be depleted. Financial confidence depends partly on the memory of earlier rescues, and disclosures of losses can weaken it. Intervention can rebuild confidence when it restores production and credible financing. By October 5 the 10-year had closed at 5.31%, its highest since May 2002. A treatment that raises the fever it was prescribed for is the iatrogenic loop, and it now runs at the household, the corporation, the sovereign and the alliance at once.

The cascade does not stay in the body that produced it, because the incumbent's allies and creditors share its circulation. Japan defends the yen out of the reserves that anchor the dollar, and its finance ministry defends a currency its budget cheapens. Europe runs the same shock through a buffered core, with the French 10-year above Italy's, storage under trajectory, and Aramco's October allocations cut to nothing.[608] The Gulf's bypass has

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[607] The second inflation door beside oil: Bureau of Labor Statistics, U.S. Import and Export Price Indexes, August 2026 (September 16): import prices up 0.7% in August and 7.0% on the year, the largest rise since August 2022, https://www.bls.gov/news.release/ximpim.nr0.htm; fuel imports up 26.8% on the year, petroleum 27.3%, natural gas 102.6%; nonfuel imports up 0.8% in the month with capital goods among the drivers, computers, peripherals and semiconductors named in the June release as where the capital-goods rise was concentrated; the 20% for the computer index as reported by Roberts (September 26), the series to be read.

[608] ACER, "The EU Will Need Higher LNG Imports to Refill Gas Storage Ahead of Winter," July 7, 2026, https://acer.europa.eu/news/eu-will-need-higher-lng-imports-refill-gas-storage-ahead-winter, and Bundesnetzagentur, situation report on the gas supply, October 7, 2026 (German storage 59.2% full), https://www.bundesnetzagentur.de/DE/Fachthemen/ElektrizitaetundGas/Versorgungssicherheit/aktuelle_gasversorgung/start.html; Reuters, September 15 and 17, 2026 (Aramco's zero October allocation to its European term buyers), copy at https://gcaptain.com/oil-prices-surge-as-saudi-red-sea-loadings-halt-libya-shuts-fields/. On the French 10-year above Italy's: Il Sole 24 Ore (Radiocor), October 2, 2026 (the French 10-year at 4.92% and the Italian at 4.70% at the open; the spread over the Bund 145 basis points for France and 123 for Italy), https://en.ilsole24ore.com/art/the-btp-bund-spread-rises-again-opening-at-123-points-with-a-yield-of-470-per-cent-AJmGUQWB, and Il Foglio, August 28, 2026 (the Italian 10-year yielding less than the French since the summer),

suffered repeated attacks and interruptions since April, restored pumping has not established secure passage, and the kingdom's request for protection was declined the day it was made.[609] Taiwan is required to hold only 11 days of gas, and the fabs the buildout depends on sit on that grid.[610] Below the allies the price is paid in quantities: the fertilizer that did not sail, the export bans, Pakistan's evening peak, the 45 million in the World Food Programme's war scenario.[611] And the creditors have begun to move, Norway's fund by proposal and the Dutch central bank by shipment, out of a dollar that is still rising because the scramble for it comes before the flight from it.[612]

The arc has run this course three times. Castile stopped payment in 1557 and 6 more times by 1647, and each stop converted the bankers' advances into claims on taxes the wars had already spent. Amsterdam's capital, once its own trade had stopped paying, went into British paper until the entrepôt broke and the war of 1780 sent it home. London sold its imperial portfolio to pay for the First World War and saw its enforcement break at Suez in 1956. Each time it was a war the treasury could not carry, a treasury leaning on finance, and the money leaving for the successor it had built. Each time the cure for one layer was the disease of the next, and in none of the three did the cascade reverse. What the three had was somewhere for the capital to go inside the system it had made, a successor able to organize profitable capitalist production on a larger scale. The fourth has the cascade and,

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https://www.ilfoglio.it/en/economy/2026/08/28/news/markets-prefer-italy-to-france--405828. EU storage stood at 71.54% on September 29, against 82.6% a year earlier and 15.5 points below the five-year average for the date, on Gas Infrastructure Europe's data as reported by TASS, October 1, 2026, https://tass.com/economy/2195437.

[609] Saudi Ministry of Energy, April 12, 2026, via the Saudi Press Agency (the April strike on the East-West line), https://www.spa.gov.sa/fr/N2557744, and Al Jazeera, September 12, 2026 (the September shutdown), https://www.aljazeera.com/news/2026/9/12/saudi-arabia-shuts-critical-oil-pipeline-after-drone-attack-what-happened; NBC News, September 11, 2026 (the crown prince's request that Washington strike the Houthis, declined), https://www.nbcnews.com/world/middle-east/houthis-control-bab-el-mandeb-yemen-red-sea-saudi-iran-war-oil-rcna597186.

[610] Taiwan Energy Administration, security-stock table (11 days in 2025, 14 in 2027), https://www.moeaea.gov.tw/ECW/english/content/Content.aspx?menu_id=8677.

[611] Pakistan Power Division, statement of August 29, 2026 (a 3,600-megawatt shortfall at the evening peak). World Food Programme, March 17, 2026 (almost 45 million more people in acute food insecurity if the conflict did not end by the middle of the year), https://www.wfp.org/news/wfp-projects-food-insecurity-could-reach-record-levels-result-middle-east-escalation.

[612] Reuters, September 4, 2026 (Norges Bank Investment Management's proposal), copy at https://www.streetinsider.com/Reuters/Norways%2B%242%2Btrillion%2Bsovereign%2Bfund%2Bproposes%2Bdeep%2Bcuts%2Bto%2BUS%C2%A0Treasury%2Bholdings/27027041.html?classic=1; De Nederlandsche Bank, statement on its gold holdings, September 2026 (86 of 313 tonnes moved out of New York and Ottawa).

so far, no such place. Whether one emerges depends on what China becomes and on whether other regions, alone or together, can sustain expansion at the required scale. The chapters on recovery and China examine those possibilities.

Put the organs together and each treatment is drawn from another organ of the same body. The machine takes power from the grid, and the ratepayer covers the wires. It takes electricians from housing and capital from the arsenal. The war takes interceptors that Ukraine and the Pacific were promised, and barrels from the reserve. The reserve's barrels defend the price index, the index defends the central bank, and the central bank defends the Treasury, which is the rescuer of every other organ and is itself being rescued. Each move is the sensible one for the organ that makes it, and together they consume the host.

PART THREE: THE CLOSED WAYS OUT

XXI. The Tally

Part One counted seventeen ways out. Part Two closed them one organ at a time. The count follows.

Five are closed. Default would dissolve the unit in which everything else is priced. War between the great powers cannot be survived, as the next chapters argue. Mobilization needs factories that are now the rival's. There is no unclaimed territory, only territory to be taken from someone. And no victor can write a settlement, because no general war can end in a victory.

Three are spent. Cheap imported goods no longer lower the cost of living, because the cost of living is now rent, care, insurance and schooling, and those are priced as assets. The great reserves of labor are inside the wage. And the rescuer's balance sheet is the one that now needs rescue.

Three defeat themselves. A panic would clear the claims and take pensions, tax receipts and measured growth with them, so it is prevented. A wage cut would default the households whose debts and spending carry the claims. And the new leading industry cheapens by removing the people it would need as customers.

Three are hard and partly in use. Inflation and repression are the residual exit, working against savers who can see what is being done to them. Plant can still be sold cheap to a new owner, though chips do not last as rails did. And the old language of consent is still spoken, by people who no longer believe it.

Two belong to the successor: the larger host, and the cheaper energy.

One reopens only through politics, and it is the subject of the last part.

Marx's Volume III says how the system heals. Bankruptcy devalues the machines, panic devalues the paper, unemployment devalues labor, and accumulation starts again from the lower floor. Crisis is the cure. Every arrangement built since 2008 exists to keep that cure

from being taken. The loan is extended, the supplier finances its own customer, the Treasury buys its own bonds. Only labor is still allowed to be devalued.

The rest of this chapter takes the four strongest objections to that count: that the system has recovered before, that the dollar is still the strongest currency in a crisis, that Lenin's highest stage is a century old, and that every earlier forecast of the end came too soon.

On the recoveries

The system has survived economic crises before: 1914 to 1945 and the Great Depression, the stagflation of the 1970s, and 2008. The 1914–1945 era produced constant predictions of capitalism's end. None of those predictions held. Capitalism reorganized. Why is this crisis structurally different economically from any of those?

I argue that changed conditions now make those recoveries harder to repeat. The transition of 1914 to 1945 was resolved by the successor's emergence as productive hegemon, and the Bretton Woods mechanism cannot be repeated by an imperial framework that no longer operates from the productive center of the world system. The 1971 decoupling and the petrodollar settlement that supplemented it required the Navy's credible enforcement of global oil flows, and the ability to guarantee commercial passage remains contested. The 2008 rescue was authorized as protection for homeowners and Main Street. Another rescue would face the political legacy of how those costs and gains were distributed. Retirement income, national security and competition with China can still supply a case for intervention. Its affordability and effect on purchasing power depend on the taxes, borrowing and monetary measures used.

The reshoring attempted so far does not change the structural picture on the timeline the recovery requires, because money announced for factories does not by itself rebuild the supplier networks and skills that production depends on. The CHIPS Act allocated $52 billion for semiconductor manufacturing. TSMC's first Arizona fab has run its four-nanometer process at volume since the last quarter of 2024, and the second, on the three-nanometer node, is scheduled for volume in the second half of 2027 on TSMC's own schedule. What Arizona makes stays a generation or two behind Taiwan's edge in leading-edge logic, one segment of manufacturing capability. The ramp required American hires to train in Taiwan for six months to two years to operate at parity with Taiwanese counterparts who needed weeks, because the institutional knowledge no longer exists in the surrounding ecosystem.[613]

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[613] The CHIPS and Science Act (2022), the Inflation Reduction Act (2022), and the Infrastructure Investment and Jobs Act (2021) as enacted; National Center for Education Statistics and China's Ministry of Education for the degree counts, which use different definitions of engineering. The other headline totals cover different programs and periods and are not additive to that figure: the Inflation Reduction Act contained $369 billion for clean energy manufacturing, and the Infrastructure Investment and Jobs Act committed $1.2 trillion across categories that included supply-chain investment. Intel's Ohio fabs will not produce competitive advanced chips until 2030 if then. The United States produces approximately 145,000 engineering bachelor's degrees annually and China approximately

Moving a factory to an American trading partner can enlarge that country's productive base without rebuilding the American one. The Federal Reserve's study of Mexico finds substantial local value added alongside Chinese inputs.[614] That is real industrial development. It may become the basis for greater independence as local suppliers and skills develop, even where access to American customers remains decisive.

Friendshoring directs supply toward preferred partners, while import substitution develops production that replaces purchases from abroad. The two can overlap, creating new centers with interests of their own. Mexico's growth and Indonesia's effort to retain more of its nickel industry's value[615] have to be judged by what capacity they acquire and who controls its gains. Those producers can strengthen capitalism outside its old center while changing the terms on which the old center obtains its goods.

In the historical comparisons developed here, the organization of production, finance and state power helped turn productive capabilities into new centers of accumulation. Innovation worked through the scale, suppliers and markets that made it productive. The American wager asks leadership in AI to preserve command over value while much of the wider production ecosystem operates elsewhere. I judge that separation of AI leadership from much of the production ecosystem to be a serious limit on the wager.

Each historical recovery tool carries risks at the scale considered here: yield curve control worked for the sovereign once, at the bondholder's expense, and on this work's reading the market it held down demanded a premium when it was released. Debt restructuring can interrupt bond-market access; the duration and cost depend on its terms and the financing available afterward. Large-scale quantitative easing could weaken the dollar, with the effect depending on inflation, demand for dollar assets and the other policies used alongside it. The rate shock that rescued the dollar in 1979 is the fourth, and it is being administered.

A hostile reader will hold up two charts: gold, down a quarter from its January record in the middle of the war, and the dollar, strong. If the dollar's architecture is failing, the reader asks, the world should be fleeing the dollar. A reserve currency fails in two phases, and the first looks like the opposite of the second. In the scarcity phase the crisis forces the world

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1.5 million. Manufacturing in the United States costs 40 to 50% more than in Asia, even accounting for transportation, less because of wages than because of ecosystem efficiency; to illustrate with round figures, a specialized component that costs one cent in Shenzhen might cost 10 cents in Ohio, because Shenzhen has 10 thousand hardware suppliers competing while Ohio has three, ordering their inputs from Shenzhen.

[614] Aristizabal-Ramirez, Maria, Chris A. Avalos, Emma Rosenbaum, and Eva Van Leemput. "Mexico in U.S. Supply Chains: Lessons from 2018–19 Tariffs." FEDS Notes, June 5, 2026. https://doi.org/10.17016/2380-7172.4073 The study concerns the 2018–19 tariff episode and subsequent trade; it distinguishes production relocation from direct transshipment.

[615] Gracelin Baskaran, "Diversifying Investment in Indonesia's Mining Sector," Center for Strategic and International Studies, July 11, 2024, https://www.csis.org/analysis/diversifying-investment-indonesias-mining-sector. The fuller recipient-country record appears later in this work.

to scramble into the failing currency: debts written in dollars must be serviced, commodities priced in dollars must be paid for at war prices, and every leveraged holder sells what it can, gold included, to raise the unit its liabilities are written in. The stronger dollar makes those debts dearer and exports the crisis down the income gradient. The flight comes after.

The scramble has precedents, and the two nearest ended in the dollar's favor. In 1980 to 1982 and again in 2008 the hegemon's currency was strongest at the moment its architecture strained hardest, because the strain compelled the scramble, and both times the architecture came out deeper. The first of the two opened the belle époque in which accumulated wealth funded a final period of luxury and financial expansion. That outcome was available in 1980 to a central bank that could take its rate to 20% against a public debt near a third of GDP. This one raised a quarter point on September 16 against 40 trillion that rolls. The precedent in which both phases ran is sterling's: the world scrambled into the pound in the summer of 1914 to settle its debts in London, the pound went from $4.87 to $6.75 in New York, and the world spent the next 30 years leaving it.[616] The reallocation phase, the visible flight, the change in reserve holdings, the settlement migration, comes after, financed by the scars of the first.

The strongest standing version of the objection should carry its authors' names. The dollar-resilience school, Adam Tooze on the post-2008 order and Schwartz on the key-currency and profit-claims architecture, holds that 2008 deepened dollar centrality instead of denting it. The swap lines, through which foreign central banks can obtain dollars from the Federal Reserve, made the Fed the world's central bank; dollar banking outside the United States bound every offshore balance sheet to it; and dollar use kept rising through the decade the declinists spent predicting its fall.[617] That evidence establishes continued dollar dependence; it does not settle the longer-term question of American leadership. Dollar use rising while the enforcement function decays is what the scarcity phase looks like from inside, the scramble into the unit mistaken for a preference for dollar assets. What would separate preference from compulsion are the three signatures.

The handoff has three signatures that can be watched: sustained strain at the Treasury's own refunding auctions; official gold buying into a falling price; and settlement outside the dollar for the commodities that anchor the system, announced by producers and not by adversaries. A weak auction has given a first warning, short of sustained strain. Gold has met its condition on the World Gold Council's count: official buying fell to 57 tonnes in the war's first quarter and came back at 289 in the second, a record for that quarter, bought

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[616] Silber, When Washington Shut Down Wall Street (2007); Roberts, Saving the City (2013).

[617] Tooze, Adam. Crashed: How a Decade of Financial Crises Changed the World. New York: Viking, 2018. https://www.penguinrandomhouse.com/books/301357/crashed-by-adam-tooze/; Schwartz, Herman M. "American Hegemony: Intellectual Property Rights, Dollar Centrality, and Infrastructural Power." Review of International Political Economy 26, no. 3 (2019): 490–519. https://doi.org/10.1080/09692290.2019.1597754

into a falling price.[618] The third has not appeared, since the tolls Tehran says it takes in yuan are an adversary's. This is wrong if the three signatures do not all appear and the dollar stays strong. The resilience school would then have the better of the argument.[619]

The institutional analytical class is reaching the structural argument on its own. Gopinath's May 2026 analysis names the symptoms. In her reading, term premia on 10-year US Treasury yields were approximately 100 basis points higher than before the pandemic, and the sensitivity of borrowing costs to debt issuance had increased. Fiscal restraint had few champions, with parties of all stripes favoring higher spending. Stock markets, she finds, seem disconnected from heightened risk. Her endpoint: synchronized sell-offs across stocks and bonds as markets realize that the backstop they were counting on is no longer there.[620]

On the highest stage

Writing in 1916, Lenin treated the colonial partition of the globe as already complete, so further territorial expansion would contest an existing division. Capital export could still develop industry abroad and change the balance of power on which agreements rested.[621]

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[618] World Gold Council, Gold Demand Trends, second quarter 2026.

[619] State Administration of Foreign Exchange, September 7, 2026: 76.73 million fine troy ounces at the end of August, up 650,000 in the month after 640,000 in July, the 22nd consecutive monthly increase (Central Banking, September 8, 2026). China's central bank had bought for 22 months without a pause, about 80 tonnes in the year to August.

[620] Gita Gopinath, "Markets Are Banking on the 'Bliss Trade,'" Financial Times, May 8, 2026, https://www.ft.com/content/60f60089-9486-481c-859c-f29b8ccbbd90 (term premia, issuance and fiscal restraint, as quoted by Adam Tooze, "Chartbook 447: The US Economy in May 2026," May 10, 2026: "Term premia on 10-year US treasury yields are now close to 100 basis points higher than they were before the pandemic"; "the sensitivity of borrowing costs to debt issuance has increased"; "political parties of all stripes, from socialists to conservatives, all now favour higher government spending," and "fiscal restraint has few champions," https://adamtooze.substack.com/p/chartbook-447-the-us-economy-in-may; the passages were checked through these quotations, the FT original being paywalled); further passages as quoted by Adam Tooze, "Chartbook 448," May 11, 2026 ("stock markets seem disconnected from heightened risk"; "If a new course is not charted, governments constrained by fiscal space may rely on heterodox measures," "including broad-based price controls, financial repression, nationalisations, and pressure on central banks"; "synchronised sell-offs across stocks and bonds" as markets realise "the backstop they were counting on is no longer there"), https://adamtooze.substack.com/p/chartbook-448-price-controls-nationalization.

[621] Lenin, V. I. "Imperialism, the Highest Stage of Capitalism." Chapters IV–X, 1917. https://www.marxists.org/archive/lenin/works/1916/imp-hsc/index.htm Chapters IV–VII, IX–X distinguish capital export and uneven growth from the completed colonial division.

He gave the stage five features: concentration to the point of decisive monopoly; the fusion of bank and industrial capital into finance capital ruled by a financial oligarchy; the export of capital taking precedence over the export of commodities; international monopolist combinations dividing the world's markets; and the territorial division of the world completed.[622] Each feature can be checked against the United States today, and each has its evidence, the Gulf-financing example showing that capital can also flow toward the incumbent.

Monopoly rent at the leading node: TSMC's 60.3% operating margin in the July report and Nvidia's 75.0% gross margin in the August filing are priced as moats, a premium sustained by control of access rather than by the labor embodied in the product alone.[623]

Finance capital funding the customer it books as revenue: the chipmaker and the clouds finance the laboratories whose purchases fill their order books.

Capital export over commodity export: Gulf sovereign wealth solicited for compute where it was once solicited for Treasuries. The framework reported in May 2025 envisaged Emirati imports of up to 500,000 advanced Nvidia chips a year alongside Emirati investment in the American build. Export approvals remained a separate step.[624] Stargate UAE runs under the Emirati AI firm G42 with OpenAI and Oracle,[625] and Saudi Arabia's

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[622] V. I. Lenin, Imperialism, the Highest Stage of Capitalism (1917), chapters 4–7, especially chapter 7's five features.

[623] TSMC, Second Quarter 2026 Earnings Release, July 16, 2026 (gross margin 67.7%, operating margin 60.3%, net profit margin 55.6%; guidance for the third quarter of 56 to 58% at the operating line), https://investor.tsmc.com/english/quarterly-results/2026/q2; NVIDIA, press release on results for the second quarter of fiscal 2027, August 26, 2026 (GAAP and non-GAAP gross margin 75.0% for the quarter ended July 26, 2026, against 72.4% a year earlier; 74.0% expected for the third quarter), https://www.sec.gov/Archives/edgar/data/0001045810/000104581026000073/q2fy27pr.htm, and Form 10-Q, https://www.sec.gov/Archives/edgar/data/1045810/000104581026000075/nvda-20260726.htm.

[624] U.S. Department of Commerce. "Statement on UAE and Saudi Chip Exports." November 19, 2025. https://www.commerce.gov/news/press-releases/2025/11/statement-uae-and-saudi-chip-exports ; Tom's Hardware. "U.S. finally grants Nvidia license to ship AI GPUs to UAE." October 9, 2025. https://www.tomshardware.com/tech-industry/artificial-intelligence/u-s-finally-grants-nvidia-license-to-ship-ai-gpus-to-uae-500-000-blackwell-gpus-coming-to-the-gulf-region Commerce's later public authorization was for each company to purchase up to 35,000 Nvidia GB300 equivalents, subject to security requirements; the reported annual framework is a different quantity.

[625] Abu Dhabi Media Office. "Global tech alliance launches Stargate UAE." May 22, 2025. https://www.mediaoffice.abudhabi/en/technology/global-tech-alliance-launches-stargate-uae/ ; NVIDIA. "HUMAIN and NVIDIA Announce Strategic Partnership to Build AI Factories of the Future in Saudi Arabia." May 13, 2025.

Humain under the Public Investment Fund with Nvidia, AMD and Amazon.[626] These projects show capital moving in both directions. Gulf investment in American computing sits beside American investment and licensing abroad, with ownership and contractual terms determining who receives the income. An imported dollar of investment is not evidence that the United States has ceased exporting capital.

The international cartel dividing the market: the export-control regime, which allocates the leading node by license, a state's act where Lenin's cartels were private combinations.

The territorial re-division: the bid at the strait, the canal, and Greenland, which on September 22 became an agreement signed in New York with the Danish and Greenlandic prime ministers, granting permanent American basing rights, with the two parliaments still to approve it.[627] And Venezuela: Washington took the Bolivarian state's head on January 3 and kept its body, and the deal of August 28 grants a privately held operator concessions

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https://nvidianews.nvidia.com/news/humain-and-nvidia-announce-strategic-partnership-to-build-ai-factories-of-the-future-in-saudi-arabia The Nvidia announcement identifies Humain as a Public Investment Fund subsidiary.

[626] AMD. "AMD and HUMAIN Form Strategic, $10B Collaboration to Advance Global AI." May 13, 2025. https://newsroom.amd.com/news/amd-and-humain-form-strategic-10b-collaboration/ ; Amazon Web Services. "AWS and HUMAIN Announce Groundbreaking AI Zone to Accelerate AI Adoption in Saudi Arabia and Globally." May 13, 2025. https://press.aboutamazon.com/2025/5/aws-and-humain-announce-groundbreaking-ai-zone-to-accelerate-ai-adoption-in-saudi-arabia-and-globally These are announced investment and deployment plans, not evidence that all projected capacity had been completed.

[627] The trilateral signing at the United Nations, September 22, 2026 (Reuters via GMA News, copy at https://www.reutersconnect.com/item/a-deal-that-can-last-forever-trump-greenland-denmark-sign-deal-in-bid-to-end-arctic-standoff/dGFnOnJldXRlcnMuY29tLDIwMjY6bmV3c21sX1ZBNDU1NTIyMDkyMDI2UlAx and copy at https://www.investing.com/news/world-news/trump-denmark-greenland-to-sign-deal-in-bid-to-end-arctic-standoff-4909967; CNBC, copy at https://www.internationly.com/news/u-s-strikes-greenland-deal-for-permanent-control-over-security-will-send-forces-to-danish; ABC News; Al Jazeera: permanent basing rights and an expanded presence, non-NATO military installations barred unless the three parties agree, investment screening by Greenland, the parliaments of Denmark and Greenland to approve before it takes effect), https://www.aljazeera.com/news/2026/9/22/us-signs-tremendous-arctic-security-deal-with-denmark-greenland; the president's statement of September 18 and the Government of Greenland's; the Atlantic Council, September 23, on the American input over third-party investors, https://www.atlanticcouncil.org/dispatches/three-things-to-know-about-trumps-greenland-deal/. The agreement's other terms: a larger American presence at the Arctic outposts; no non-NATO military presence on the island unless all three parties consent; an American say over which outside investors count as a threat; and the sovereignty of Greenland and the Kingdom affirmed.

on 17 fields, for 100 years on Washington's account and 25 on Caracas's, while shutting out the Chinese, Russian and Iranian companies whose loans had financed them.[628][629][630][631][632]

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[628] AidData, China's Global Loans and Grants Dataset (commitments of $106 billion, 2000 to 2018; $44 billion outstanding in 2017); Reuters, January 23, 2026 (the Société Générale and JPMorgan estimates, copy at https://ca.investing.com/news/stock-market-news/factboxhow-much-does-venezuela-owe-china-and-why-is-oil-involved-4415621; the rerouted cargoes). Société Générale put the loans outstanding near $10 billion and JPMorgan at $13 to $15 billion.

[629] Al Jazeera, August 29 and September 5, 2026, https://www.aljazeera.com/news/2026/8/29/trump-announces-biggest-oil-deal-in-world-history-with-venezuela; FDD, September 2, 2026; The Hill and Newsnation, August 30, 2026 (Rodríguez's address); ABC, August 29, 2026; the Chevron expansion signed September 2, 2026. The plan also sets $19 a barrel to the treasury and a target of 1.5 million barrels a day, with elections promised as the third phase of a plan whose first two are stabilization and recovery.

[630] Executive Order of January 29, 2026, "Countering Threats Posed by the Government of Cuba"; the Nimitz to Southern Command's area from March 23 (Fourth Fleet); the indictment of Raúl Castro unsealed May 20, 2026 and the Secretary of State's video the same day, https://www.justice.gov/opa/pr/united-states-unseals-superseding-indictment-charging-raul-castro-and-five-castro-regime-co; Nahal Toosi, "Yes, Trump Might Really Attack Cuba," Politico, May 18, 2026 (military options on the table, contingency plans, no decision), https://www.politico.com/news/magazine/2026/05/18/the-odds-of-trump-attacking-cuba-are-going-up-00926317; CBS News, July 15, 2026 (plans examined including an Army-led air assault by the 101st Airborne, planners noting the Iran war's draw on forces); Politico, September 2026 (forces in position to strike if ordered); the Army Reserve's four-month support request as reported (source unnamed).

[631] Executive Order 14373 of January 6, 2026, and the Energy Department fact sheet of January 7; Representatives Casten and Castro to the Government Accountability Office, April 17, 2026 (the first $500 million through a Qatar account; Bessent's refusal to name the accounts, February 2026); Latin Times, July 31, 2026, on the GAO review and the $13 billion, https://www.latintimes.com/house-committee-investigates-fate-13-billion-venezuelan-oil-revenue-598382; CNN, September 4, 2026, on the closing of the Betancourt investigation, copy at https://nz.news.yahoo.com/trump-administration-quietly-closes-criminal-183439639.html. By July the House was asking after $13 billion; the president said the take was more and had paid for the operation many times over. The Government Accountability Office opened a review that has been met with no balances, audits or disbursement records, and the financier behind the operator was released from a decade-old money-laundering prosecution while the deal was made.

[632] The operator, North American Blue Energy Partners, is headquartered in Barbados and controlled by Alejandro Betancourt; Delcy Rodríguez is the interim president (FDD's Long

Warming opens passages and resource frontiers even as it destroys existing ways of life: the Arctic route is accumulation finding an opening in the damage it caused. The opening is not an outside. It runs through waters already under national jurisdiction, inside the same world market. New ports, ships and extraction can still draw investment and earn profits for a time; the question is whether they offer room on the scale the surplus requires, and at whose cost.

The industrialization of Germany, America and Japan had already shown how investment abroad could produce competitors as well as customers. Lenin made that uneven growth central to imperial rivalry.[633] Bukharin traced a related contradiction in Imperialism and World Economy: production was becoming international while capital organized through national states seeking command over markets and supplies. Closer coordination within a state could intensify conflict between states.[634]

An investment that improves one state's security can raise another's costs or remove its market. A protected factory may increase domestic capacity while depending on imported machinery and fuel, whose suppliers can now demand better terms. Several such programs can therefore expand production and deepen dependence at the same time. Their sponsors also contest territory and alliances, so commercial bargains remain exposed to conflicts that lower prices alone cannot resolve. Adding assembly plants does not instantly reproduce semiconductor fabrication, refining capacity or power grids. Some inputs must still come from the centers these policies were meant to escape.[635]

Beijing faces this problem as the countries it helps industrialize acquire more capacity and bargaining power. At home, capital finds further fields in household services and paid cognitive work, but the AI investment competes for physical inputs while promising to eliminate some of the wages that buy its customers' output. My judgment is that these

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War Journal, September 2, 2026, https://www.fdd.org/analysis/2026/09/02/white-house-caracas-release-details-on-historic-us-venezuela-oil-deal/).

[633] Lenin, V. I. "Imperialism, the Highest Stage of Capitalism." Chapters IV–X, 1917. https://www.marxists.org/archive/lenin/works/1916/imp-hsc/index.htm Chapters IV, V and IX.

[634] Bukharin, Nikolai. "Imperialism and World Economy." Written 1915; online archive edition, 1917. https://www.marxists.org/archive/bukharin/works/1917/imperial/index.htm Chapters VIII and X–XIII. The application to the present conjunction is this work's argument.

[635] International Energy Agency. "Global Critical Minerals Outlook 2026." Executive summary and outlook, 2026. https://www.iea.org/reports/global-critical-minerals-outlook-2026/executive-summary Gopinath, Gita. "Geopolitics and Its Impact on Global Trade and the Dollar." International Monetary Fund, speech of May 7, May 8, 2024. https://www.imf.org/en/News/Articles/2024/05/07/sp-geopolitics-impact-global-trade-and-dollar-gita-gopinath These sources describe concentrated inputs and continuing dependence through connector economies. They do not establish geological exhaustion or the impossibility of new supply.

attempts to restore accumulation now intensify the conflicts faster than they resolve them. The test is whether expanded production can sustain its supplies and paying markets through the resulting losses.

The same cheapening that destroys existing claims can lower the cost of production for whoever uses the surviving assets. Several routes could sustain renewed accumulation. Surviving American campuses and power connections could serve new owners after the original investors lose. Partial automation could reduce production costs, and savings in selling, billing and other circulation work could leave more of the existing surplus available for investment.[636] Chinese models that undercut American suppliers' rents can lower costs for users elsewhere. State purchases, guarantees, restructuring and redistribution could sustain activity while losses clear. Regional industrialization could enlarge production and markets as American leadership declines.[637]

The labor-replacing use of AI also threatens the recovery it promises. Cutting jobs and wages lowers some firms' costs while reducing the incomes that buy their customers' output. State support has to sustain usable production and paying markets; new industrial regions need suppliers, energy and access to customers. I judge these constraints likely to prevent renewal at the scale and speed the crisis requires. The balance between gains and losses remains unmeasured. A comparison over the same period must count employment and demand losses alongside usable output, cost savings and the resources consumed in compute, energy, replacement and supervision. Sustained expansion along these routes would count against my judgment.

Because the platform's toll is a rent drawn from living labor, the persistent reading that names the platform economy a new mode of production, techno-feudalism in the term of the economist Yanis Varoufakis, mislabels what it sees. The commissions Apple and Google take on sales through their app stores, which can reach 30%, are surplus value appropriated through monopoly position over the platform, and the labor beneath it is

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[636] Marx, Capital, vol. 3, ch. 17, on the costs of circulation as a deduction from surplus value, https://www.marxists.org/archive/marx/works/1894-c3/ch17.htm. The saving from AI is this work's inference from that accounting; no measurement of it is cited here.

[637] Evidence for these recovery routes includes the European-firm productivity study discussed in XV; Intel's August 2025 government-equity agreement and fiscal-2025 funding disclosures; and UNIDO's World Manufacturing Production, Q2 2026, pp. 3 and 8. The production series records seasonally adjusted quarterly growth. These observations concern different units and periods and cannot be summed into a net recovery balance.
https://www.bis.org/publications/working-paper-1325-ai-adoption-productivity-and-employment-evidence-european-firms
https://www.intel.com/content/www/us/en/newsroom/news/corporate/intel-and-trump-administration-reach-historic-agreement.html
https://www.sec.gov/Archives/edgar/data/50863/000005086326000011/intc-20251227.htm
https://stat.unido.org/portal/storage/file/publications/qiip/World_Manufacturing_Report_2026_Q2.pdf

wage labor still. The rents of the platform toll, the monopoly of the frontier chip, the state-guaranteed annuity on retirement savings and the fictitious capital of a two-trillion listing whose revenue is its buyers' investment are appropriation without production, the Gilded Age restored by the technology that promised to end it.[638][639] The rentier-monopoly form is the apex of capitalism on Lenin's own definition, and this definition implies a different ending. A new mode already arrived would mean a settled succession. A highest stage a century old means contradictions intensified to the point where the mode supersedes itself or breaks down. Chapter IV of Imperialism specified the realization side of the same stage: mass consumption cannot be raised at profit's expense without terminating the system at its definitional level.[640]

Arrighi's schema says how different, and dates it in its own vocabulary. Arrighi distinguished the signal crisis, the onset of financial expansion that announces the material regime's exhaustion, from the terminal crisis that ends the cycle, with a belle époque between them: a temporary revival of the hegemon's fortunes, financial in substance, mistaken for renaissance. Edwardian Britain was his type case. In this vocabulary, the signal crisis falls at the dollar's decoupling from gold in 1971, and the belle époque runs across the Reagan-Clinton restoration, asset prices standing in for a productive base already migrating. Arrighi's own judgments are dated. In 2007 he placed terminal onset at the Iraq war. His last word, the 2009 interview, called the bursting of the housing bubble, in his phrase, "the terminal crisis of US financial centrality and hegemony," and redated the belle époque to have gained steam under Clinton. Silver and Arrighi's essay of 2011 read 2008 as the confirmation.[641] On this work's later interpretation, the present process, which it calls the terminal cascade, is the completion, with the war at the strait as the second demonstration of enforcement by war, after the one that failed in Iraq, and the AI buildout as the belle époque's second wind, the latest of the financial expansions that every autumn mistakes for spring. The second wind is this work's extension of his schema.

The structural claim under this empirical observation is articulated in Marx's 1859 preface to A Contribution to the Critique of Political Economy. The dictum is the closest thing in Marx to a falsification test for "terminal" versus "cyclical" crisis. "No social order is ever destroyed before all the productive forces for which it is sufficient have been developed,

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[638] The belief section; Lenin, Imperialism, ch. 4.

[639] Apple. "App Store Small Business Program." https://developer.apple.com/app-store/small-business-program/. Google. "Service Fees." Google Play Console Help. https://support.google.com/googleplay/android-developer/answer/112622?hl=en. Rates and exceptions vary by program and jurisdiction.

[640] V. I. Lenin, Imperialism, the Highest Stage of Capitalism (1916), chapter IV, "Export of Capital." The application of Lenin's argument to platform rents and the proposed systemic ending are the author's interpretation.

[641] Arrighi, "The Winding Paths of Capital," New Left Review 56: 61–94; Silver and Arrighi, "The End of the Long Twentieth Century" (2011), 55–56.

and new superior relations of production never replace older ones before the material conditions for their existence have matured within the framework of the old society. Mankind thus inevitably sets itself only such tasks as it is able to solve, since closer examination will always show that the problem itself arises only when the material conditions for its solution are already present or at least in the course of formation."[642]

The test is whether the productive forces have outgrown the relations of production within which they have operated. If they have, terminal. If not, cyclical. The post-1971 dollar architecture has presided over the development of specific productive forces: the Chinese industrial base, the integrated global supply chain, the digital infrastructure that makes alternative settlement systems operationally feasible, the renewable-energy substrate that enables non-petrodollar energy economies, and the AI compute layer the architecture's substitute productive base attempted to capture. Two relations are outgrown at once. The first four of those forces have outgrown petrodollar enforcement and dollar-denominated finance, which are relations between states. The fifth encloses the wage, the relation of production in Marx's strict sense, and would abolish it. The reading would fail if a new center of accumulation, a rebuilt monetary order or financial rescues restored sustained capitalist expansion. Such a recovery could end American predominance while preserving capitalism.

The material conditions for the alternative architecture are present, and have been present since the 2008 inflection at the latest. The cascade is the relations of production failing to contain the productive forces they enabled and that have now outgrown them. The recovery mechanisms examined here can impose costs on the same production and demand they are meant to restore. I judge that this conflict now limits the order's capacity to renew itself.

On the early forecasts

The Communist International, founded in Moscow in 1919, held at its 1928 Sixth Congress that capitalism had entered what it named the general crisis of capitalism, a structural condition from which the system could not recover by its own internal logic and from which only revolutionary supersession could exit. The Comintern thesis was wrong about 1914 to 1945 in a specific sense. Capitalism did recover after 1945, through the synthesis of American productive hegemony, Bretton Woods architecture, the welfare-state compromise with labor, and the Cold War's strategic structure. The conditions for that recovery were available because the United States emerged from the war as a productive hegemon with an intact industrial base, an enormous trade surplus, and the institutional capacity to anchor a new global currency arrangement. The diagnosis applies now in a way it did not apply then, because each of the conditions for the post-1945 recovery has been

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[642] Marx, Karl. A Contribution to the Critique of Political Economy. 1859. Translated by S. W. Ryazanskaya. Moscow: Progress Publishers, 1970. Free online text: https://www.marxists.org/archive/marx/works/1859/critique-pol-economy/index.htm Preface.

used up. If the claim holds, the Comintern anticipated the contradiction and underestimated the timeline by approximately 80 years.[643]

The Comintern was not the first to be early. Plekhanov's answer to the blunting thesis was right about the direction and wrong about the date, as Engels had been half a century before him, and Engels's correction of 1895 gives the reason in the terms of Marx's 1859 preface: the order still had room for its productive forces. The century after Plekhanov was the room. The incumbent's cycle opened it twice, once with the assembly line and the mass consumer, which turned the relative impoverishment Plekhanov measured into a rising absolute standard for the core's workers for two generations, and once with the 1990s integration of China, India and the former Soviet bloc into the global labor market.

The difference between those expansions and the survival of profitable enclaves is historical. Colonial extraction and dispossession helped capital extend its reach, however violently. An enclave preserving returns as surrounding production and public provision break down occupies a different position. It can survive by drawing resources away from the conditions needed for a wider recovery. Showing that owners still receive income does not show that their accumulation can reproduce an expanding world economy.

The world market's geographical reach does not close every possible field of investment. New industries and the regional centers now being built are real possibilities for accumulation. The terminal claim concerns what happens when their expansion requires rival states to secure the same supplies and markets, or leaves households unable to reproduce the labor on which production depends. If these centers restore a durable expansion, capitalism has again overcome its crisis. If their protection consumes the conditions of that expansion, capital's survival inside them describes the contraction that has to be explained.[644]

The other half of the answer is the one this work has given for every transition. The old regime persists past its base: on the historian Arno Mayer's account, Europe's monarchies and aristocracies held power from 1815 to 1914, after industrial capitalism had developed beneath them. And the revolution that breaks through first is premature. The Jacobins of 1793, as Plekhanov showed, reached for an order the means of production of their time could not carry. The Bolsheviks of 1917, as I argue, built the base they were told to wait for, forced the core's concessions while their state stood, and saw those concessions rolled back once it fell.[645]

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[643] Communist International. The Programme of the Communist International, Adopted at the Sixth World Congress. Moscow, 1928. https://www.marxists.org/history/international/comintern/6th-congress/index.htm

[644] Karl Marx, Capital, vol. III, chapter 15, section II, https://www.marxists.org/archive/marx/works/1894-c3/ch15.htm. Marx also treats devaluation as a means of renewing accumulation; the terminal historical verdict here goes beyond that mechanism.

[645] Arno J. Mayer, The Persistence of the Old Regime (1981).

None of that makes the present a repetition. My claim is that the openings now available cannot carry a comparable renewal: the incumbent's productive base has moved, its profits depend heavily on its builders' borrowing and its sovereign's deficit, and the new industrial centers enter a world of contested supplies and markets. The base the premature formations lacked now exists in the form the transition requires, production socialized at a scale no one in 1899 imagined and an accounting machine able to read it, and the successor holds most of it.

The order that defeated the last forcing carrier, a revolutionary state whose existence pressures rival states to make concessions to their own workers, reverses what that carrier made it concede. After 1815 the monarchical powers ran a Restoration that rolled back the constitutions, censored the press, and put the old dynasties back, while keeping the administrative and fiscal-military modernizations the revolutionary period had forced on them. The order that won in 1991 ran the same motion in the other register, beginning a decade before its victory, rolling back the welfare settlement, breaking the unions, and financializing, while keeping the technocratic capacities it had absorbed. Restoration therefore reads as reaction against a base that keeps developing.

The two cases part here: the content France spread could not be undone, the content the Soviet Union spread was a concession the core could withdraw, and the base this Restoration reacts against is the one it shipped to the successor. The monarchical case shows that such an order holds for a generation and then cracks, as it did in 1830 and 1848, though the monarchies and aristocracies held power until 1914. The asymmetry makes the present case worse for the order running it. The monarchical Restoration stripped the political concessions and was not exporting its own productive base in the act. The neoliberal Restoration's rollback of the labor settlement was the same motion as the flight of its productive base: offshoring undid the settlement and shipped out the foundation of the order's own power. That is why this Restoration has less underneath it when it cracks.

The system might still survive. The recovery mechanisms examined here face changed conditions and serious limits. A new center of accumulation could still carry the system, as one did at every earlier transition. The prediction that "this time is different" has been wrong far more often than it has been right. What I'm claiming is more modest than civilizational certainty: that any other recovery would have to be invented under conditions actively hostile to its invention.

This count is wrong if a large write-down of these claims is taken, credit goes on functioning, and the surviving assets earn a return for their new owners.

XXII. No Larger Host

If the existing architecture cannot recover in its current form, what does the supersession look like? The question concerns the architecture, the whole sequence of capitalist world leadership, and not any one state. Arrighi's account of successive, increasingly powerful centers of accumulation provides a way to examine it.

The arc has faced its own ending twice before, and the record of the two survivals is what makes the present audit decisive. The seventeenth-century general crisis and the 1914–1945 conflagration were both moments when the sequence could have terminated, and both times it survived on the same four conditions. A larger container stood ready: each regime's territorial base exceeded its predecessor's, city-state, proto-national federation, national empire, continental state, so accumulation always had somewhere bigger to recompose. Mobile capital was free to migrate to it. A crucible war crowned it. And an outside remained: territory, populations, and nature not yet subsumed, into which the recomposed system could expand. Run the audit against the present. On this framework's reading, the container series is exhausted as a series of types, because the only type larger than a continental state is a world state; whether a looser arrangement of states could serve as a larger container stays open. The successor's container is the larger of the two continental states in population and industrial capacity, as Arrighi's sequence would lead us to expect. No type stands behind it, and the world state is the one formation the arc has twice refused.

The world state's failure under the Habsburgs is what opened the sequence, and its failure at Hormuz is what closes it on this work's reading, unless American enforcement returns without a sovereign toll. The strait that was to be the successor's jugular, which a carrier group could close in minutes, closed instead on the incumbent's allies: the successor rode out the closure on its stockpiles, pausing its purchases and refilling later, while the allies rationed jet fuel. The bid for universal empire bookends the arc, failing at its birth and at its death, with opposite residues. The first failure left the plurality that hosted five centuries of accumulation. The second leaves China as the strongest candidate to organize a successor system, alongside other growing centers. China's direction of capital changes the terms on which that system could form. Mobile capital has also become an instrument of the incumbent's enforcement, while nuclear danger obstructs a general war to settle leadership. New industrial regions remain possible, but their growth can sharpen the struggles over supplies and markets that a successor must resolve. The attempted expansion into cognitive work faces a related problem: its returns depend partly on the incomes of people whose jobs it promises to remove.

The internalization series states the same exhaustion from inside the regimes. Each cycle internalized a cost its predecessor externalized, bringing it under the control of the organizing state and its firms. The Dutch internalized protection, the British production, the Americans transaction, the vertically integrated corporation swallowing the market's coordination work, and writers extending Arrighi's series have proposed a fourth for the regime that would follow: reproduction, the making of the workers themselves. The fourth has begun to arrive in policy, and not in a capitalist form. The party-state holds housing, education, industrial formation, and the reproduction of the workforce as plan targets, denominated in use-values. The targets show intent. The measure is how much of the cost of living the state actually takes on. What the incumbent attempted instead was a fifth, the internalization of cognition, the labor process as such, and it is the one internalization the series cannot contain, because it consumes the wage relation every prior internalization still required.

With the arc's maritime edge first shown at Hormuz and the incumbent's last reach made for the same strait, the circle is closing, and the pressure on the form question now reaches Washington. The incumbent's own late motion is toward the "state capitalism" it spent a century defining itself against: equity stakes in strategic firms, taken to keep their production at home and under federal influence, and a 12-billion-dollar federal mineral stockpile, built against the successor's power to withhold critical minerals.[646] In the week of Xi's September visit to Washington its own trade establishment counselled adding to the stockpile by buying it from the adversary. Its transportation secretary wrote himself "deeply alarmed" by a Michigan battery plant the White House had praised nine days earlier, over cells built on the successor's chemistry under license.[647] Sovereign funds now manage 15 trillion dollars against less than one at the century's start, and industrial-policy adoption rose ninefold in six years. The political economists Alami and Riofrancos, cataloguing what they call Trumpian state capitalism, find state intervention unmoored from its twentieth-century ideological associations and adopted by regimes of all stripes, with Washington a late adopter of a movement two decades old.[648]

The American president states his approval of the change himself: taking stakes in companies, he says, is very American.[649] Washington's turn toward direct investment and industrial controls exposes the limits of the private allocation its ideology defended. It also demonstrates a capitalist means of adaptation. Owners can retain command over production and its surplus while the state coordinates investment and protects their firms. Whether that response changes class rule depends on who directs the state and who can contest its decisions. The growing use of planning makes that conflict more explicit without settling it.

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[646] The other instruments of the same turn: threats to seize defense contractors, export licenses converted into revenue shares, a development-finance cap more than tripled so the state can take positions in foreign state-owned firms, tariff walls run as industrial policy, and a Treasury administering the bond market as a defended price.

[647] Adam S. Posen, "China Still Has What America Needs," Foreign Affairs, September 21, 2026; the Department of Transportation's letter of September 3, 2026, public September 8 (BlueOval Battery Park, Marshall, Michigan, on CATL-licensed cells; Ford's reply); the White House release of August 31, 2026, praising the plant.

[648] Lenin had the incumbent's form in 1917: Germany and America "regulate economic life" by reactionary-bureaucratic methods, war-time penal servitude for the workers and a paradise for the bankers and capitalists (Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapters 4 and 11). State enterprises hold some 54 trillion dollars in assets, a stock equal to about half of one year's world output, which measures their weight in the economy rather than their share of production.

[649] Washington Post. "Trump Attacks 'Communists' but Pushes a Bigger Government Role in Economy." July 12, 2026. https://www.washingtonpost.com/business/2026/07/12/trump-attacks-communists-pushes-bigger-government-role-economy/

The right image is therefore the Restoration after 1815. An incumbent with wealth worth defending can adopt its opponent's organizational methods to preserve its own hierarchy, and the restored monarchies did, as the last chapter described. The state capitalism now running from Washington makes the same move for the same purpose, the challenger's instruments in service of the incumbent hierarchy's position and wealth, and it still commands a vast following. The case in which that move holds is the authoritarian outcome, the core keeping its hierarchy under personalist rule beside a growing successor, which I argue cannot hold for long.

I call my revision of Arrighi's framework the two-sided lock. Arrighi's finding in 1994, in paraphrase, was that capitalist power cannot expand indefinitely without undermining the interstate competition for mobile capital it rests on. The alliances of state and capital grow formidable enough to eliminate that competition, and with it the possibility of a new capitalist power of a higher order. He asked whether the structures of American capitalism are the ultimate limit of the six-century process, and left the answer open.[650] I argue that they are, for two connected reasons. One is already in the record, and the other remains a claim about China: the incumbent converted the mobile-capital pool into an enforcement instrument, while the formation holding the productive mandate is said to direct capital rather than compete for its favor. No prior near-ending of the arc approached this configuration.

In the seventeenth century and in 1914–1945, surviving capacities helped rebuild the conditions of accumulation elsewhere. My two-sided lock names the obstacles I judge decisive today: coercion over mobile capital and a Chinese formation that may direct it toward another class purpose. For the lock to stop capitalist renewal, those obstacles would also have to prevent other centers from sustaining an expansion. India, Southeast Asia and Mexico are the candidate centers considered earlier. China's class trajectory is therefore central to the argument without settling the fate of every possible capitalist recovery. Two cautions bound the claim. This is an interpretation of how the transitions work; regular intervals between them would not establish it. Robert Brenner's critique of neo-Smithian Marxism poses a challenge to this use of cycles: trade and expansion cannot substitute for an explanation rooted in the relations of production.[651] This work uses falling profitability and difficulty selling output to explain why accumulation enters crisis. Arrighi's historical sequence explains how such crises redistribute power among states. The account needs both the production problem and the international institutions through which its consequences spread.

The historical comparison also concerns military power, and it is datable at both ends. The plurality that made states biddable made them armed, and the competition that mobile capital financed produced, within two generations of the arc's birth in 1492, a war-making

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[650] Arrighi, The Long Twentieth Century, 19.

[651] Brenner, Robert. "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism." New Left Review I/104 (July–August 1977): 25–92. https://newleftreview.org/issues/i104/articles/robert-brenner-the-origins-of-capitalist-development-a-critique-of-neo-smithian-marxism.

capability at sea that no other civilization could match, though on land the Ottomans, the Mughals and the Ming held parity or better through the sixteenth century. An early form of that maritime edge appears at Hormuz in 1507. At Cajamarca in 1532, 168 Spanish soldiers captured the Inca ruler Atahualpa in an afternoon. One conquest cannot stand for every later encounter, yet for five centuries a version of the pattern recurred wherever the arc's core met the world it priced: the asymmetry seized the ghost acres the historian Kenneth Pomeranz counts, the overseas land whose output fed the importing economy, the Maxim gun held them, and the gunboat collected. The China bracket shows the pattern.[652]

The Ming court ended its oceanic expeditions after 1433. Four centuries later gunboats on the Pearl River opened its successor's market. And that formation's yards now hold more than 200 times the combined commercial and naval shipbuilding capacity of the arc's last hegemon, on that hegemon's own estimate. The estimate measures an industrial base whose conversion into warships depends on its yards, suppliers, workforce and orders.[653] The asymmetry is the audit's fourth condition stated in military form. The outside stayed open because the core could always kick the door in, and every accumulation regime in the sequence rested on that capability the way the settlements rested on the plurality. An arc that opened with the conquistador closes when the doors stop giving, and Hormuz is its maritime bookend: the carrack's edge took the strait in 1507, and in 2026 the incumbent's navy has not held it open.

The prior transition clarifies the structure if the right formations are matched to the right roles. The Soviet Union was the encircled bubble on the capitalist sea, the premature and weaker formation the stronger system contained and outlasted, and its fate is the trapped-transition failure mode the rest of this argument works to distinguish China from. The USSR is the analogue of revolutionary France, the forcing carrier that was crushed and whose content diffused into the sea that beat it, the welfare settlement the imperial core adopted as the price of competing with the alternative the USSR represented. China is the analogue of Britain in the prior transition instead, the mixed formation that was the rising center and not the encircled periphery, carrying the more advanced base under the old order's retained forms. Britain carried industrial capitalism while keeping a monarchy, a Lords, and a landed aristocracy it has never fully cleared. China carries a state-directed base while keeping markets, private firms, and a bourgeoisie. Part Four tests how far that direction brings production under collective control.

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[652] Hoffman, Philip T. Why Did Europe Conquer the World? Princeton: Princeton University Press, 2015. https://press.princeton.edu/books/paperback/9780691175843/why-did-europe-conquer-the-world; Pomeranz, Kenneth. The Great Divergence: China, Europe, and the Making of the Modern World Economy. Princeton, NJ: Princeton University Press, 2000. https://press.princeton.edu/books/paperback/9780691217185/the-great-divergence; Restall, Matthew. Seven Myths of the Spanish Conquest. New York: Oxford University Press, 2003.

[653] U.S. Office of Naval Intelligence, briefing slide on Chinese and U.S. shipbuilding capacity (2023), reproduced in The War Zone, July 11, 2023, https://www.twz.com/alarming-navy-intel-slide-warns-of-chinas-200-times-greater-shipbuilding-capacity.

The mixed formation that wears the prior order's birthmarks is what the durable carrier of a transition looks like, and the rising carrier turning on the premature one is part of the pattern. Britain organized and financed the coalitions that destroyed revolutionary France, and China defected from the Soviet bloc, took the American hand in 1972, and helped complete the encirclement that exhausted the USSR. The analogy has three limits: the direction of financing, the nuclear constraint on general war, and the difference between colonial empire and productive predominance. Britain was financed by the incumbent it displaced, and so was China for 30 years, as American firms moved production offshore. The difference is the return leg: China recycled its surplus into the incumbent's debt, slowed the recycling after 2008, and its reported Treasury holdings have fallen since 2013. It has propped the incumbent since by other means, the consumption pause that held the world's energy price through the closure being the latest. Britain fought its crucible and wrote the peace, while a war to decide China's succession would risk nuclear escalation. And Britain took an empire; China's proposed succession instead rests on productive predominance without colonial rule.

This is wrong if India, Southeast Asia or Mexico sustains a long expansion on capital that neither Washington commands nor Beijing directs.

XXIII. The Bomb and the New Thirty Years War

The American precedent shows how far the present sequence is inverted. The Depression's actual solution was the war: mass mobilization absorbed the unemployed, wartime and postwar financial repression reduced the real burden of public debt, and the crucible crowned the productive power that fought it. In the sequence I forecast, the reel runs backward. The war comes before the crash and spends in advance the buffers the crash response would need, and the mobilization exit is foreclosed: the 1941 escape required Detroit, and Detroit is in Shenzhen.

The bomb changes how one hegemon can succeed another. Each prior succession was settled through general war: the Thirty Years War for the Dutch consolidation, the Napoleonic Wars for the British, and the 1914–1945 sequence for the American. The incumbent and the successor were not always enemies, since Britain rose as the Dutch Republic's ally and America as Britain's. Those wars reordered the system and established the new center's leadership. Nuclear danger now encourages forms of attrition that avoid a direct clash between the great powers, including wars on their peripheries and pressure on the infrastructure and finances supporting them.[654] On this work's reading, exhaustion carries much of the contest: shell production against consumption, interceptor inventories against burn rates, and financial reserves against drawdowns. Deterrence does not protect

[654] Prikryl, Rudolf. "The 'Revolution' of Operational Art: The Transparent Battlefield, the Migration of Deep Operation, and the Character of the Next War." Counterattack Journal, September 25, 2026. https://www.counterattackjournal.org/blog/revolution_of_operational_art Sections IV and VI–VIII. The author's interpretation distinguishes deterrence from immunity to conventional attacks.

every part of a nuclear state from conventional attack, and pressure on the systems sustaining it can increase the incentive to escalate. The protection is also unequal: the worst case now discussed in the incumbent's own policy press is tactical nuclear use against Iran, a belligerent with no bomb.[655]

Exhaustion still favors the power with the productive base. I expect it to produce a different settlement. The prior wars selected for the rising bourgeois center: Amsterdam, London, and New York each financed the coalitions, supplied the materiel, and inherited the settlement. The productive base is now the successor's. I call the bomb's effect the solvent, because it dissolves the general war in which every earlier succession was settled and leaves wars of exhaustion in its place. The first of them was the Cold War, and it went to the side with the larger economy: the Soviet Union matched the incumbent's arsenal by spending some 15 to 20% of its own output on defense in the Brezhnev-era build-up. That build-up ran from 1965 to the early 1980s, and Moscow fought its borderland war in Afghanistan while the incumbent's base carried the contest. The rule was the one Lenin had stated in 1917, that economic organisation is of decisive importance in modern warfare.[656] The successor studied the result from 1993 to 2004 and filed the arms race and the expansionist policies among Moscow's own mistakes.[657] It has since run the same war with the roles reversed, carrying a fraction of the Soviet burden and fighting no war of its own since 1979.[658]

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[655] Parsi and Pickering, Responsible Statecraft, October 4, 2026.

[656] Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 12: "economic organisation is of decisive importance in modern warfare", and a country whose banks are nationalised is superior in military might to one whose banks remain in private hands.

[657] The Diplomat, October 8, 2022, on the party's study of the Soviet collapse from 1993 to 2004, reported at the Fourth Plenum of the 16th Central Committee in 2004: fourteen economic lessons, among them stagnation and over-centralization, https://thediplomat.com/2022/10/the-ccps-changing-understanding-of-the-soviet-unions-collapse/; six international, of which only peaceful evolution and containment were blamed on the West and four, expansionist policies, an arms race, chauvinism and the domination of client states, filed as Moscow's own mistakes. David Shambaugh, China's Communist Party: Atrophy and Adaptation (Berkeley: University of California Press, 2008). The counterargument, that Beijing is forgetting the lesson in its naval and nuclear build-up: Bloomberg Opinion, October 23, 2023, on the Pentagon's report; the answer is the build-up's share of a larger output against the Soviet 15 to 20%.

[658] SIPRI, April 2026: China's military spending an estimated $336 billion in 2025, up 7.4%, its 31st consecutive rise, about 1.7% of an output near $19.5 trillion; the United States $954 billion, with more than $1 trillion approved for 2026. The largest build-up in size is a tenth of the Soviet share. The incumbent's own nuclear outlay from 1940 to 1996 came to about $5.5 trillion in 1996 dollars (Stephen I. Schwartz, ed., Atomic Audit, Brookings, 1998), https://www.brookings.edu/books/atomic-audit/.

The form this takes is an old one. Before the wars of whole nations there were the wars of 1618 to 1648: fought in the borderlands, by hired and borrowed armies, on credit, for thirty years, and ended by exhaustion at a conference nobody had won the right to dictate. The escalation that began with the levée ran through 1914 and 1945 and stopped at the bomb, and war has fallen back to the earlier form. Since 2011 the great powers have fought in Syria, Ukraine, Gaza, Lebanon, Yemen and the Gulf without once fighting each other. Such wars bleed the treasuries that pay for them and the peoples they are fought across. They destroy no claims in New York, London or Shanghai, and so they clear nothing.

The crucible still runs. Operation Epic Fury, the war's American designation, is its current theater, where military threats and insurance terms can obstruct commercial passage. I expect an exhausted and unstable pause, rather than another settlement imposed through general war.

A settlement can still form without a conference. The CIPS payment rails, the oil-for-goods accounts and the mediated corridor at the strait are arrangements made one at a time, each operating before any principal acknowledges the order they compose. What Westphalia, Vienna and Bretton Woods delivered in a room, this transition delivers by accretion.

In the 500-year sequence every peace congress, from Westphalia to Vienna to Bretton Woods, did the same constitutional work: it renewed the plurality of centers that mobile capital required, restoring the multiplicity the war had threatened to abolish. A congress cannot restore the former competition for mobile capital. The successor does not compete for it on the old terms, and the incumbent has made that capital an instrument of enforcement. This is the two-sided lock. The states remain many, and a world contested between Beijing and a shrunken American-aligned bloc stays possible.

The sequence of transitions sharpens what the blocked crucible means. The incumbent is bidding for universal empire at the strait with no Vienna waiting to crown anyone. Each earlier successor paid for the crown inside the crucible by financing the winning coalition, Britain as the Dutch Republic's ally and America as Britain's. This time the payment is aimed at the incumbent's collateral, the reserve, the bond and the interceptor stock, instead of its palace. Nuclear weapons make an assault on the adversary's capital far more dangerous and leave open the road to the adversary's collapse, so the aim of overthrow migrates to another route: the induced failure of the adversary's social reproduction, by bypassing its strongest defenses and exhausting the systems that sustain it. Russia in 1917 and Germany in 1918 fell this way, with no enemy army in the capital. Three channels put pressure on the incumbent: rare-earth export licenses, the components behind Tehran's arsenal, and the decline in reported Chinese Treasury holdings. They act through supply, military replenishment and financing. Establishing a coordinated strategy to induce collapse requires evidence connecting the decisions in those channels.[659]

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[659] The doctrine was written down in 1999 by two air force political officers who had watched the Gulf War of 1991: Qiao Liang and Wang Xiangsui, Unrestricted Warfare (Beijing: PLA Literature and Arts Publishing House, February 1999), the preface dated January 17, 1999, the war's eighth anniversary. War as "using all means, including armed force or non-armed force, military and non-military, and lethal and non-lethal means to

The post-1945 settlement joined monetary arrangements to institutions meant to govern relations among states. Dollar convertibility into gold ended in 1971. I read the present breakdown of international enforcement as a later failure of the same settlement. Earlier struggles ended with a successor able to give a new order institutional backing; none has yet assumed that role here, and nuclear deterrence makes a general war to decide it catastrophically dangerous. What remains are conferences that convene and do not bind: the Bishkek Declaration, adopted on September 1, 2026 at the Shanghai Cooperation Organisation summit where the leaders of China, Russia, India and Iran sat in one room, and the chair's statement that closed the G20 finance ministers' meeting at Asheville the same day, which China alone declined to join.[660] That is the League's condition: signatories without a guarantor. The successor has sponsored one Gulf settlement. The trilateral statement of March 2023 records China hosting the Saudi-Iranian talks and co-signing the agreement that restored relations, and its text gives Beijing no enforcement obligations. Parsi and Pickering report that diplomatic relations have survived a war in which Iranian strikes hit Saudi facilities, and call China its guarantor, their reading of Beijing's leverage.[661] Relations that survive are a different outcome from strikes prevented or passage secured at the strait.

The challengers who now invoke the legal form are hypocrites on the record, Moscow in Ukraine since 2014, Beijing against the arbitral award of 2016, Tehran through its proxies, and the hypocrisy is beside the point. The rising power always claims the universal form the incumbent has hollowed. Washington invoked the Charter against London and Paris at Suez in 1956 while overthrowing governments in Tehran and Guatemala City, and the invocation held because Washington could supply what the form requires: a navy, a currency, a court, and a market that made consent cheaper than resistance. Beijing's formula, an order with the United Nations at its core, claims the Charter's text after the

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compel the enemy to accept one's interests"; eight principles, among them asymmetry and minimal consumption; the Gulf War read as a luxury-style war by a society acutely sensitive to casualties; the currency attacks of 1997 counted among the new battlefields. Not official doctrine and not a master plan, and much of its reading of the Gulf War came from American writing (Josh Baughman, "'Unrestricted Warfare' Is Not China's Master Plan," China Aerospace Studies Institute, April 25, 2022). Minimal consumption is the Cold War's lesson in doctrinal form, and the financial battlefield it predicted is the one both sides now fight on.

[660] Anadolu Agency, September 1, 2026 (the Bishkek Declaration adopted at the SCO heads-of-state summit), https://www.aa.com.tr/en/world/sco-leaders-adopt-bishkek-declaration-expand-cooperation-on-security-trade-technology/4043993; WLOS, September 1, 2026 (the Asheville chair's statement, agreed by 19 of 20 members, China dissenting), https://wlos.com/news/local/story/asheville-g20-finance-meetings-scott-bessent-china-economic-impact-global-economy.

[661] Joint Trilateral Statement by the People's Republic of China, the Kingdom of Saudi Arabia, and the Islamic Republic of Iran, Beijing, March 10, 2023, https://www.mfa.gov.cn/eng/wjb/zzjg_663340/xybfs_663590/xwlb_663592/202303/t20230311_11039241.html; Parsi and Pickering, Responsible Statecraft, October 4, 2026.

concert that enforced it has broken. That would make Beijing the first successor in this sequence to inherit a form and not write one.[662]

The roles have also inverted. In 1815 the Holy Alliance and Britain coexisted, the monarchies supplying legitimacy and Britain's navy and pound the balance. In 1919 and 1920 the United States Senate refused the guarantor's role. In 2026 the continental powers have assembled at Bishkek, and the maritime power has defected from its own form while still holding the navy, a configuration none of the prior settlements had to price. Whether a juridical half can accrete as the payment rails have, a navigation regime counting as law because the ships that cross take the route Tehran approves, is the question the successor has to answer.

The old succession mechanism therefore faces both the financial and political obstacles described by the two-sided lock and the danger of nuclear escalation. The conflict can keep destroying capacity while neither side establishes terms that restore it.

The realist reply is that a declining hegemon with its arsenal intact gambles on escalation before it accepts displacement: a blockade of the Strait of Malacca, a major shipping passage between the Indian and Pacific oceans, or a strike on the successor's ports. Behind them stands tactical nuclear blackmail, so a settlement by accretion invites the general war it is supposed to avoid. The reply is no longer only a theorist's. On August 5 Elbridge Colby, the Pentagon's policy chief, told Strategic Command's deterrence symposium that the nuclear review under way would give the president "rationally employable, limited options", and a report he co-wrote in 2022 had recommended limited nuclear use against the People's Liberation Army and the successor's defense industrial base. It is the doctrine of the weaker conventional party, NATO's against Soviet armor in the 1950s, and the incumbent adopting it for the first island chain, the arc of islands along China's near seas, is its admission of which side of the balance it now stands on.[663]

The record answers the reply rung by rung up the ladder of escalation, and the bottom rungs are going. Cheap shore-based launchers against costly ships and interceptors have

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[662] Pezeshkian's address to the 81st General Assembly, September 23, 2026 (UN Web TV); Parisa Hafezi and Michelle Nichols, "Iran's Pezeshkian Accuses Trump of 'Bullying Mentality,' Vows No Surrender," Reuters, September 23, 2026, on the American delegation's walkout, copy at https://www.al-monitor.com/originals/2026/09/irans-pezeshkian-accuses-trump-bullying-mentality-vows-no-surrender; Trump's address of September 22, 2026 (NPR).

[663] Elbridge Colby, remarks to the U.S. Strategic Command Deterrence Symposium, August 5, 2026, as reported by the Washington Times, August 18, 2026, and Xiaodon Liang, Arms Control Today, September 2026, https://www.armscontrol.org/act/2026-09/news/dod-officials-preview-us-tactical-weapons-push (a review to examine "rationally employable, limited options that advantage us and stand the chance of favorably managing escalation", to inform the president's employment guidance; the 2022 report's recommendation of limited nuclear use against PLA forces and China's defense industrial base); Asia Times, September 21, 2026.

removed the rung on which a fleet could reliably hold the strait open. Holding one shut is being priced now. The blockade of Iran's ports is enforced under ballistic fire by a fleet whose forward base the adversary wrecked in the war's first days, supplied from Diego Garcia 2,000 miles off, with a carrier kept at sea for nine months for want of a port.[664] That is the cost of closing the trade of a regional power through one strait.

A blockade of the successor's trade would face a larger launcher count with a longer reach, across three straits where the Gulf has one, in the waters of neutral states that trade more with the successor than with the incumbent, and with pipelines and rail behind the coast that no fleet can reach. And if the magazine allowed it the economics would forbid it: a blockade wide enough to matter closes the trade of every ally and the supply chain of the incumbent's own arsenal.

The top rung is mutual destruction, and the reporting on Russian nuclear signaling, Moscow's discussion of tactical thresholds and the Agency director's flight to Moscow,[665] is brinkmanship inside the solvent, not an exit from it: the threshold is discussed because neither side gains by crossing it, a claim about interests that holds only while the interests do. What remains are the middle rungs, the peripheral wars, and the record shows the incumbent climbing them, Yemen, Iran, the tankers, each one an exhaustion war that selects for the productive base. The gamble the realist predicts is being taken. It is being taken at the only rungs the ladder still has, and those select against the gambler.

Selection describes the outcome and leaves the risk standing. A bypass against a nuclear power is tolerated in inverse proportion to its success, and the power nearest reproduction failure has the most reason to gamble. On this work's own account that power is the incumbent. The only nuclear state to dissolve did so in 1991, in peacetime, by internal decision, with its chain of command intact and an adversary anxious to help secure the warheads. That is the precedent for an American retreat without defeat in the field. The same precedent leaves two paths open: a managed retreat with command intact, or a disintegration in which control of the arsenal itself becomes uncertain. The danger is sharpest in the Pacific, where the sensors used to find conventional targets also serve nuclear early warning. An attack intended to blind the battlefield network could be read as preparation for a nuclear strike. China's dual-capable DF-26 force grew through 2025 while

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[664] Navy Times, September 1, 2026; CNN, September 5, 2026; Al Jazeera, September 6, 2026.

[665] Bloomberg. "Putin Moves to Escalate War in Ukraine With Talks at Dead End." August 26, 2026. https://www.bloomberg.com/news/articles/2026-08-26/putin-moves-to-escalate-war-in-ukraine-with-talks-at-dead-end ; Meduza. "Kremlin sources tell Bloomberg that Putin is preparing to escalate the war in Ukraine." August 26, 2026. https://meduza.io/en/feature/2026/08/26/kremlin-sources-tell-bloomberg-that-putin-is-preparing-to-escalate-the-war-in-ukraine-a-growing-number-of-russian-officials-believe-that-could-eventually-mean-a-tactical-nuclear-weapon ; The Atlantic. Reporting on CIA Director Ratcliffe's Moscow visit, August 26, 2026. https://www.theatlantic.com/international/2026/08/cia-director-ratcliffe-moscow/688424/ Meduza's account of Bloomberg's reporting also records no signs of preparations for a nuclear strike; the visit and the nuclear discussion are separate reports.

part of its arsenal moved to higher readiness, and a campaign to blind the successor's reconnaissance-strike complex would strike the eyes of its deterrent.[666]

The solvent acquired a new way to fail this spring. During the war an analyst at the Pacific special operations command asked a chatbot to read a Chinese cargo ship's manifest against open-source and signals intelligence, the machine concluded that the ship was carrying nuclear-weapons components to Iran, and the conclusion went out as a formal intelligence report. Boarding was readied before officials reread it and found it false, and one of the four sources who described it said it almost started a war.[667] Nuclear restraint still depends on people who must assess such reports under pressure. The department's January AI strategy makes speed its governing priority, shortening the time in which someone can catch a mistake.[668]

The war showed what the substitution does when the target is abroad. On its first morning, with the mediator saying a deal was near and technical talks set for Vienna, two Tomahawks struck an elementary school in Minab and killed at least 156 people, 120 of them children and 26 of them teachers. The Revolutionary Guard had handed the land to the province in 2014, and the school had run there behind its own wall for more than a decade, its pupils and murals visible on imagery weeks before. The targeting database still listed a Guard facility, and the targeting system surfaced it as a recommended target for the first day. Central Command's civilian-harm team, the people whose work was to check, had been cut from ten to one, and no one from it reviewed the site before launch. The department had dissolved its civilian-protection office the year before and named its policy maximum lethality, not tepid legality, and former targeting officials said the mandated validation would have caught the error whatever the machine did.[669] Bloomberg reported

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[666] SIPRI Yearbook 2026; Kristensen, Korda, Johns and Knight-Boyle, "Chinese Nuclear Weapons, 2026," Nuclear Notebook, Bulletin of the Atomic Scientists, July 2026.

[667] CNN, September 18, 2026 (four sources, https://www.cnn.com/2026/09/18/politics/us-military-ai-false-intelligence-china-ship; "entirely false"; "almost started a war"), as reported by Engadget, Rolling Stone, The Times of Israel and Ars Technica, September 18 to 24, 2026. The CNN account in detail: an analyst at Special Operations Command Pacific, a chatbot's reading of the vessel's manifest from open sources and classified signals intelligence, the report's circulation across the military, the boarding party and aircraft readied, the operation stopped as it was about to begin, https://transcripts.cnn.com/show/skc/date/2026-09-18/segment/01 and copy at https://www.geneticsandsociety.org/article/us-military-had-close-call-after-using-ai-false-intelligence-report-sources-say.

[668] The department's later statement on verifying intelligence inputs (as reported by TMZ, September 18); Sam Biddle, The Intercept, September 28, 2026, on the January strategy memo ("Speed Wins"). The Department of Defense's AI Acceleration Strategy of January 2026; the Pentagon and the command declined comment.

[669] Jeremy Scahill, "Massacre at Minab", Drop Site News, September 2026, and his account on Breaking Points (the talks, the counts, the land's transfer in 2014, the second wave, the

that the Pentagon's review found overreliance on the system.[670] Palantir's Shyam Sankar disputed that account on October 11.[671] Additional AI checks were introduced after the strike. The incumbent is cutting the labor of restraint, the analysts who check and the officers who refuse, at the speed its doctrine prizes, against a successor whose own doctrine is written for intelligentized war.[672]

The solvent is thinning on three sides at once. On cost, the incumbent performs an enforcement it cannot pay for indefinitely, escorting through the Gulf barrels it cannot keep from being fired on, in the waters the last incumbent's navy first held for its own fuel in 1914. On error, commanders still authorize each action,[673] but they do so on machine-

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civilian-protection office, the officials' view), https://www.dropsitenews.com/p/minab-school-massacre-iran-war-children-families; the Associated Press (evidence that at least one American missile hit the school, copy at https://mynorthwest.com/world/a-us-missile-killed-iranian-schoolchildren-four-months-ago-we-still-dont-know-the-full-story/4252938; the findings unreleased); the report of the Independent International Fact-Finding Mission on the Islamic Republic of Iran, A/HRC/63/61, advance unedited version of September 14, 2026, made public September 17, paras. 80 to 98, copy at https://www.ecoi.net/en/file/local/2145088/a-hrc-63-61-auv-ffmi.pdf. The counts differ across sources: the prosecutor's 156 deaths including 120 schoolchildren and independent information of 157 deaths including 123 children (the mission, paras. 92 and 93), more than 150 with at least 123 children (Bloomberg), and 168 (Iranian officials).

[670] Bloomberg, September 22, 2026, "US Military Modifies AI Combat Targeting after Iran Minab School Strike," https://www.bloomberg.com/news/articles/2026-09-22/us-military-modifies-ai-combat-targeting-after-iran-minab-school-strike; Bloomberg's reconstruction, https://www.bloomberg.com/graphics/2026-iran-school-attack/.

[671] CBS News. "Transcript: Shyam Sankar, Palantir Chief Technology Officer, on Face the Nation." Face the Nation, October 11, 2026. https://www.cbsnews.com/news/shyam-sankar-chief-technology-officer-palantir-face-the-nation-transcript-10-11-2026/ The denial does not adjudicate responsibility or establish that AI independently authorized the strike.

[672] China's National Defense in the New Era (2019), on intelligentized warfare.

[673] The same weeks' record on the allies' side of the line: OpenAI disclosed on July 21, 2026 an intrusion at Hugging Face by agents in a cyber-capability sandbox, more than 1,200 of them from May to late July, a zero-day in an internal registry proxy, the repository's production servers breached for a benchmark's answers, and a second swarm on a German wiki in May, the independent study confined by the company to one week (New York Times, September 4, 2026, copy at https://monorepo-sample2.nyt.net/2026/09/04/podcasts/hugging-face-hack-reports.html; OpenAI's technical report of August 26, 2026, and the review by METR and Redwood Research, as described by Ian Krietzberg, "OpenAI's Agent Uprising," Puck, September 3, 2026, https://puck.news/what-the-hugging-face-attack-reports-reveal-about-ai-agents/; the Senate subcommittee's inquiry of September 10); the Australian

assisted assessments that nearly prompted the boarding of a Chinese ship and helped select a school as a target, with the people whose work was to check cut away. On doctrine, the incumbent's planners now ask for rationally employable, limited nuclear options, the doctrine of the weaker party. The last eighty years absorbed each of these alone. Together they increase the danger that fighting involving the principal powers escalates beyond their control, one route into the outcome Part Five calls systemic chaos, in which no successor order forms.

Speed has become the era's doctrine on both of the incumbent's fronts. The department's strategy judged the risk of moving too slowly greater than the risk of imperfect alignment. The market says the same in its own instruments: options that expire on the day they are bought made up about three fifths of S&P 500 index options volume in February and March 2026, against about a twentieth in 2016. Luke Kawa of Sherwood News called the year's market too fast to fade, meaning too fast to profit reliably by betting against its moves. A doctrine of speed removes the interval in which someone checks, in the decision to strike as in the decision to sell. It was in that interval that the ship's manifest was reread before anyone boarded, and it is the interval the fund obeying its own limits never has.[674]

Finance has its own weapon that cannot be used at full power. The war's financial front announced itself by name. In late August the Treasury secretary declared what he called an economic D-Day against Iran, a zero leakage approach, consequences promised for any country whose banks, exchange houses, ship registries, or front companies touch Iranian revenue, with the top of the trading-partner list reading China, the UAE, Turkey, Iraq, the EU, and India. Veterans Affairs Secretary Doug Collins supplied the translation on Newsmax on August 24: the military has beaten them down, so now it is time to take their money.[675]

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government's account of an agent entering the non-public part of its Medicare statistics reporting portal on June 18 and reaching aggregate statistics and internal file names, the company aware of it on August 11, writing to a public Services Australia mailbox on September 10, the prime minister's office hearing on the 15th (Albanese, New York, September 24, 2026; Time, Help Net Security and BleepingComputer, September 24); and, separately, Transluce's finding of attempts against three sites during ordinary retrieval tasks, none observed to succeed, with related traffic to at least September 16 (Transluce, September 24, 2026; Fortune, Cybersecurity Dive, SiliconANGLE, September 24 and 25).

[674] The Department of War's Artificial Intelligence Acceleration Strategy, January 2026. Marco Mossad, "From Development to Doctrine: The Pentagon Fast-Tracks AI," Al Majalla, updated February 11, quotes "Military AI is going to be a race for the foreseeable future, and therefore speed wins" and describes the argument that delay is riskier than imperfect alignment. Holland & Knight, "Department of War's AI-First Agenda," February 23, discusses the strategy and quotes "speed wins"; Cboe via Nasdaq (zero-day options a record 63% of S&P 500 index options volume in February 2026, about 5% in 2016) and SIFMA Insights, April 2026 (60% in March); Luke Kawa on Odd Lots, Bloomberg, October 1, 2026, at 20:57 to 22:11, https://www.youtube.com/watch?v=7lUQBXqhnn4.

[675] Rupar, Aaron. Clip of Doug Collins on Newsmax, August 24, 2026. https://bsky.app/profile/atrupar.com/post/3mttz3gpr732z ; Breaking Points. August 25,

The structure of the threat is the structure this work has priced. Sanctioning a systemically connected financial institution seizes its counterparties the way a failing clearinghouse does, and the secretary answered the question of why he had not already done it in his own words, asking why he would want to blow up the global economy.[676]

The instrument at full power destroys the system that issues it, so it is displayed at full power and used at partial power, the bazooka doctrine transposed from 2008 into sanctions policy.[677] The adversary prices the difference in public. Tehran's lead negotiator answered that Washington is not in an economic position to restrict its relations further,[678] and that a threat which destroys its issuer is not a threat. The UAE's halt of all trade with Iran after a disputed missile claim[679] shows the campaign's working form, the periphery conscripted account by account. The price of reopening is meanwhile published from the other side: the strait stays closed, by the negotiator's statement, until the memorandum's terms are honored, blockade lifted, frozen assets released, sanctions ended.

This is wrong if the principal powers fight each other directly and one of them dictates the peace, or a conference with a guarantor behind it writes a settlement that binds.

XXIV. What Is Left: 1918 and 1991

If the ways out are closed, an order still ends somehow. History offers two cases of a great power that could not be conquered and ended anyway.

2026 episode with Ryan Grim and Emily Jashinsky, Collins recording at approximately 12:07. https://podscripts.co/podcasts/breaking-points-with-krystal-and-saagar/82526-bessent-threatens-blowing-up-global-finance-canada-trade-war-begins-scotus-mail-in-decision

[676] Zhang, Sharon. "Bessent Unveils Iran Sanctions Regime He Admits Could 'Blow Up' Global Economy." Truthout, August 24, 2026. https://truthout.org/articles/bessent-unveils-iran-sanctions-regime-he-admits-could-blow-up-global-economy/

[677] Henry Paulson, oral history interview, Miller Center, University of Virginia, on the 2008 Fannie Mae and Freddie Mac rescue authorities and his bazooka metaphor. https://millercenter.org/the-presidency/presidential-oral-histories/henry-paulson-oral-history.

[678] Axios. "Treasury Secretary Scott Bessent Announces 'D-Day' Sanctions Against Iran." August 24, 2026. https://www.axios.com/2026/08/24/bessent-dday-iran-secondary-sanctions

[679] United Arab Emirates, Ministry of Foreign Affairs. Statement on halting trade and financial dealings with Iran, August 19, 2026. https://www.mofa.gov.ae/en/MediaHub/News/2026/8/19/uae-Iran ; Euronews. "UAE halts all trade and financial dealings with Iran." August 19, 2026. https://www.euronews.com/2026/08/19/uae-halts-all-trade-and-financial-dealings-with-iran The UAE attributed the attack to Iran; Iran denied responsibility.

The first is 1918. Germany's armies were being beaten in the field that autumn, and its commanders knew it by the end of September. But the front still ran through France and Belgium when the war ended. What gave way behind it was a society that four years of blockade had starved: the fleet mutinied at Kiel, councils took the cities, and the dynasty was gone in a week. Austria-Hungary went the same way in the same weeks. The Russian empire had gone the year before, and the Ottoman followed within four years. The claim that the home front betrayed an unbeaten army was a lie told afterwards by the men who had lost. An army is the last organ to fail, and it fails when the body behind it has nothing left to send.[680]

The siege can be measured. Britain closed the North Sea in 1914 and counted food as contraband. Germany had imported about a third of its food and much of its fertilizer. In the winter of 1916, after the potato crop failed, the cities lived on turnips, and the ration fell to about a thousand calories a day. The German health office put the civilian dead from the blockade at 763,000 in December 1918, and a later study put the figure at 424,000.[681] Either number describes a population that could no longer be asked for anything. When the army broke in the summer of 1918 it broke as men walking away. Perhaps a million soldiers left the line or avoided returning to it in the last months, in what the historian Wilhelm Deist called a covert military strike.

The second is 1991. The Soviet Union was never invaded and never defeated in the field.

Its siege was of a different kind, and Yegor Gaidar, who became Russia's acting prime minister the following year, reduced it to two words, grain and oil. Soviet farming stopped growing in the 1960s while eighty million people moved to the cities, and the state fed them with imported grain paid for in hard currency.[682] The hard currency came from oil and gas, 60% of it by 1985. When the oil price fell in 1986 the arithmetic stopped working. Moscow borrowed from Western banks and owed $54 billion by 1989.[683] A government that lives on its adversaries' credit cannot send tanks into Warsaw or Vilnius without losing

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[680] On the army's collapse from within during the summer and autumn of 1918, Wilhelm Deist, "The Military Collapse of the German Empire: The Reality Behind the Stab-in-the-Back Myth," *War in History* 3, no. 2 (1996): 186-207. On the blockade and the food supply, Avner Offer, *The First World War: An Agrarian Interpretation* (Oxford: Clarendon Press, 1989). On both together, Alexander Watson, *Ring of Steel: Germany and Austria-Hungary at War, 1914-1918* (London: Allen Lane, 2014).

[681] C. Paul Vincent, *The Politics of Hunger: The Allied Blockade of Germany, 1915-1919* (Athens: Ohio University Press, 1985); the later figure is from a 1928 study sponsored by the Carnegie Endowment for International Peace.

[682] Yegor Gaidar, "The Soviet Collapse: Grain and Oil," American Enterprise Institute, April 2007, https://msuweb.montclair.edu/~lebelp/GaidarAEISovietCollapseApril2007.pdf; at length in Yegor Gaidar, *Collapse of an Empire: Lessons for Modern Russia*, trans. Antonina W. Bouis (Washington, D.C.: Brookings Institution Press, 2007).

[683] Library of Congress country study as reproduced at GlobalSecurity.org, "Soviet Oil Production," https://www.globalsecurity.org/military/world/russia/energy-oil-su.htm.

that credit, which is Gaidar's explanation of why the empire was let go. By the autumn of 1991 the budget deficit was near a third of output, the reserves were gone, and the state had defaulted on its foreign payments.[684]

A hypernormalized order dissolves where another would fall. The models most often invoked for the American transformation are revolution, 1917, civil war, 1861, and fascist consolidation, 1933, and each captures an element. The model I propose as the closest fit is the one American analysts seldom consider, because it happened to the other superpower. The Soviet Union possessed thousands of nuclear weapons, the largest army in the world, a vast surveillance apparatus, and a security service with 70 years of internal repression behind it. The whole thing dissolved in the 18 months between the Russian republic's declaration of sovereignty in June 1990 and the Union's formal end in December 1991, without a nuclear launch, though not without deaths, in Vilnius and Riga in January 1991 and in Moscow that August. The dissolution runs from the top and the edges at once: people stop performing the ritual when continuing costs more than stopping. I read the financiers' gatherings described earlier and the primary-election contests described later as early signs of that change. What would distinguish dissolution from revolution or authoritarian consolidation can be observed: compliance lapsing at the top and the edges while no organized force seizes the center and the security apparatus stands aside instead of enforcing the forms.[685]

Neither ending was gentle, and this book does not offer them as comfort. Germany's was followed by civil war in its cities, an inflation that destroyed the savings of its middle class, and within fifteen years the regime that built its program on the lie about the unbeaten army. In Russia, between 1990 and 1994, the expectation of life among men fell from about sixty-four years to about fifty-eight.[686] Soviet savings were wiped out by the inflation of 1992, and the plant was sold for a fraction of its worth to those placed to buy it. In this book's terms both endings reopened the old ways out, by default, inflation and cheap resale, at the cost of a decade of lives. That is what a dissolution is: the destruction of claims that the order refused to carry out while it stood, carried out on the population after it has fallen.

Set the two beside each other and four things recur. Each state was under a siege it could not lift by force, of food in one case and of credit in the other. Each spent its last reserves on

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[684] Anders Åslund, chapter on the Soviet collapse and the Russian transition, Peterson Institute for International Economics, https://www.piie.com/publications/chapters_preview/6970/05iie6970.pdf.

[685] Yurchak, Alexei. Everything Was Forever, Until It Was No More: The Last Soviet Generation. Princeton: Princeton University Press, 2005. https://press.princeton.edu/books/paperback/9780691284484/everything-was-forever-until-it-was-no-more; Zubok, Vladislav M. Collapse: The Fall of the Soviet Union. New Haven: Yale University Press, 2021.

[686] Francis C. Notzon et al., "Causes of Declining Life Expectancy in Russia," *JAMA* 279, no. 10 (1998): 793-800.

a final effort that was meant to end the siege and deepened it, the offensives of spring 1918 and the arms and reform programs of the 1980s. In each the men with the guns declined to use them on their own people at the decisive hour, at Kiel in November 1918 and in Moscow in August 1991. And in each a part of the governing class concluded that it would do better without the order than within it, the generals who handed the armistice to civilians and the officials who became owners.

The United States is in neither position, and the differences should be stated as plainly as the likeness. It feeds itself and exports food. It produces more oil and gas than it burns. No fleet stands off its coast, and its debts are owed in a currency it prints. Germany could be starved and the Soviet Union could be refused a loan. Neither can be done to America by anyone except America.

That last clause is the argument of Part Two. The siege described in the chapters above is one the incumbent has laid on itself: a strait closed by its own war, a creditor it sanctions, a supplier it tariffs, and a set of claims on its own future so large that honoring them consumes what would be needed to produce the means of honoring them. A siege from outside can be lifted by a treaty. One that the besieged administers is lifted only by a decision to stop defending the claims, and Part Two has shown that decision being refused in one organ after another. So the two precedents mark a range and predict nothing. Whether the American case moves toward either depends on things that can be watched: whether the forces of order go on enforcing, whether the governing coalition holds its own members, and whether the population keeps performing the forms.

Both ended at home, under a siege they could not lift, when the cost of continuing passed the cost of stopping. Neither was an ending anyone could have dated in advance. This is the kind of ending the closed ways out leave open, and it is why this book treats dissolution as an open possibility and names no day. Part Four asks whether the successor is a different kind of order. Part Five asks whether people can reopen the one way out that politics controls.

PART FOUR: THE OTHER FORMATION

XXV. How It Got Here

To judge the successor, a reader needs one more primer. The question it serves is old and practical. How does a poor country, where most people farm, build the industry that socialism was supposed to inherit from capitalism? The answers given in Moscow and Beijing across a century are the background to everything China is doing now.

To understand China's different course, we have to return to the Soviet experiment. The party that governs China was founded in 1921 in the orbit of the Communist International, the organization through which Moscow supported revolutionary parties abroad. It took the Soviet model whole in the 1950s, broke with it in 1958 and again in 1978, and has spent the years since answering questions the Soviet experiment posed:

How does a communist revolution in a "weak link" with a semi-feudal economy create the proletarian class it ostensibly rules for, accumulate under siege, keep its apparatus from ossifying during siege, and survive hostile encirclement long enough to be able to invert the encirclement? The Soviet case is the control against which to test China's different course.

The Bolshevik tradition in the Soviet Union seized state power in one of the last "Absolute Monarchies": a "backward" economy that had come late to the party of industrialization and urbanization. State power was seized by a communist party, but the productive base and proletarian class, massively destroyed by the First World War and still substantially agricultural from Tsarist underdevelopment, was self-admittedly (by the communists in power) insufficient to support immediate socialist construction the seizure of power was intended to enable.

The stagist Marxists, Mensheviks and Provisional Government ministers sitting in Bolshevik prisons would have smirked. "Of course, we could have told you this, and in fact we did!" They would claim in "orthodox Marxist theory" you must proceed through prior development phases: there is no "jump" to capitalism without mercantilism, no mercantilism without feudalism. In order to get to socialism, you need a fully matured bourgeois-capitalist phase to develop productive forces. You cannot skip stages. Bolsheviks instead had theories about "jumping" from semi-feudalism to socialism. Trotsky notably popularized the conception of it being possible for a country to pass directly from the dominance of the semi-feudal aristocrats, who held political power in Russia in the early part of the 20th century, to the dominance of the working class, without an interceding period of dominance by the bourgeoisie. This was considered the sort of "voluntarist nonsense" stagist Marxists predicted would surely fail.

The necessities of the civil war between the whites and reds essentially forced the Soviet government to ration, plan, and collectivize, the so-called "War Communism." By 1921, large-scale industrial output was roughly one fifth of its 1913 level,[687] and famine was common during the Civil War, which is to be expected as it was common during the First World War itself under Tsarism as the monarchical system collapsed. Civil war did little to improve such a situation.[688]

With such mass impoverishment, and the difficult rationing and war time conditions the civil war entailed, the sailors and anarchists of the fortress of Kronstadt rose against the Soviet government that had won the revolution alongside them, and the beleaguered Soviet

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[687] Markevich, Andrei, and Mark Harrison. "Great War, Civil War, and Recovery: Russia's National Income, 1913 to 1928." Working paper, 2010, appendix C, table C6, p. 48. https://wrap.warwick.ac.uk/id/eprint/57360/1/WRAP_28.2010_harrison.pdf Table C6 gives large-scale industry an index of 20.4 in 1921 with 1913 equal to 100.

[688] Harrison, Mark. "The Soviet Economy in the 1920s and 1930s." Capital & Class 2, no. 2 (1978): 78–94. Author's copy: https://warwick.ac.uk/fac/soc/economics/staff/mharrison/public/1978_cc_postprint.pdf

government crushed the rebels, but it was clear that the current course was not sustainable.[689]

Lenin and the Bolsheviks' response was the New Economic Policy. NEP reversed War Communism, restored small-scale private enterprise, permitted private trade, replaced grain requisitioning with a tax in kind, allowed peasants to sell surplus on markets, and brought in foreign concessions for industry, while keeping the commanding heights of large industry, banks, and foreign trade under state ownership.[690]

The stagists again would smile: "here we revert! You are simply going to end up back at capitalist development, the Soviet government becoming the bourgeois one, as a law of history!" Writing after the democratic, anti-monarchical revolutions of 1848, Marx rejected this necessity in his March 1850 Address. He opposed a compulsory "period of petty-bourgeois predominance over the classes which have been overthrown and over the proletariat"; the petty bourgeoisie were the small proprietors and tradesmen.[691]

Marx's late thinking, in an obscure series of four re-written drafts of his 1881 reply to a letter by Russian Marxist Vera Zasulich, further complicates a strict "stagist" reading some of his German followers had drawn out of his works in *Das Kapital*. Marx specified that the historical analysis of stages of capitalist development in *Das Kapital* specifically described Western European development and *explicitly declined* to claim it as universal law. The letter's drafts opened the possibility that Russia's existing peasant communes under Tsarism could provide a basis for a direct transition from semi-feudalism under the Tsar to socialism, if the political and material conditions favored it. Such a reading is contested, but the Bolshevik tradition essentially built its strategy on these thoughts, whether from the letters themselves or from similar interpretations of historical and economic development theories. Lenin in the *April Theses* and *State and Revolution* operationalized such rejection of strict stagism.[692]

Trotsky's permanent revolution thesis distilled this: in Russia, the domestic owners of capital would not carry out a thorough bourgeois-democratic revolution and could indeed

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[689] Paul Avrich, Kronstadt 1921 (1970), on the sailors' demands, Bolshevik responses and suppression.

[690] Lenin, V. I. "The Tax in Kind (The Significance of the New Policy and Its Conditions)." 1921. In Collected Works, vol. 32, 329–65. Moscow: Progress Publishers, 1965. https://www.marxists.org/archive/lenin/works/1921/apr/21.htm

[691] Marx, Karl. "Address of the Central Committee to the Communist League." March 1850. In The Marx-Engels Reader, edited by Robert C. Tucker, 2nd ed., 501–11. New York: W. W. Norton, 1978. Free online text (different edition or translation): https://www.marxists.org/archive/marx/works/1847/communist-league/1850-ad1.htm

[692] Marx, Karl. "Drafts of a Reply to Vera Zasulich." 1881. In Late Marx and the Russian Road: Marx and the Peripheries of Capitalism, edited by Teodor Shanin, 99–123. New York: Monthly Review Press, 1983. Free online text: https://www.marxists.org/archive/marx/works/1881/zasulich/index.htm

become permanent backward resource colonies of Western capital instead. The bourgeois-democratic tasks (political democracy and the land reform question) would *have* to be carried out by the proletariat instead, who would not stop at those tasks but would carry them through and continue directly into socialist construction. How far the proletariat could continue would depend on the further course of events, not by mechanically passing through a bourgeois-democratic stage first.[693]

These theses were necessary again due to a fact Marx's expectations had not predicted: the proletarian revolutions of the early 20th century came where the proletariat was largely not present in numbers. Russia in 1917 had perhaps 3.5 million factory workers in a population of 170 million, most of them in Petrograd, Moscow, the Donbas, and the Urals, a class of 2% in a sea of peasants, and China in 1949 had about 3 million industrial workers among 540 million people.[694] The seizure of "proletarian" power in the "weak links," the empires where capital was least developed, most exhausted and least reinforced, was carried out by the smallest working classes in the industrial world through parties that spoke for it, in alliances with a peasantry whose demand was land and whose numbers essentially became the Red Armies and whose urbanization created the working classes.

Lenin's formula of 1905 named exactly this: a revolutionary-democratic dictatorship of the whole proletariat and the peasantry, a joint class dictatorship whose first content was the land reform the bourgeoisie would not carry out and whose second, once the land was given to the peasants, was the creation through industrialization and urbanization of the proletarian class in whose name the state ruled. Mao's New Democracy of 1940 is the same formula for a more peasant-driven war: a joint dictatorship of the revolutionary classes, led by the urban proletariat through the party, with the allied peasantry in the countryside surrounding the cities.[695]

In both cases, the new state had to build the working class through industrial planning and urbanization, with the countryside financing the city. That was "primitive socialist accumulation" in practice, distinct from the colonial conquests and enclosures of capitalist primitive accumulation. Here the transition could become trapped: the working class first had to be created by a state it was supposed to govern. Meanwhile hostile capitalist powers tried to destroy that state, as in the Allied intervention during the Russian Civil War.

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[693] Trotsky, Leon. The Permanent Revolution and Results and Prospects. 1906, 1930. New York: Pathfinder Press, 1969. Free online text: https://www.marxists.org/archive/trotsky/1931/tpr/index.htm

[694] Trotsky, Results and Prospects (1906) and The Permanent Revolution (1930); Lenin, Two Tactics of Social-Democracy in the Democratic Revolution (1905); Mao, On New Democracy (1940); Skocpol, States and Social Revolutions (1979), on the exhausted old regime as the site of revolution. Russian factory employment near 3.5 million in 1917 on the standard series; Chinese industrial workers about 3 million in 1949 on the State Statistical Bureau's count.

[695] V. I. Lenin, Two Tactics of Social-Democracy in the Democratic Revolution (1905); Mao Zedong, "On New Democracy" (1940).

That is where the charge of the Soviets as mere "state-capitalists" that was thrown at them throughout the 20th century by so-called "Left Communists" gets its evidence. A state that operates wage labor and commodity production in order to produce a working class is merely doing, in Lenin's own name for it, "state capitalism under the dictatorship of the proletariat," yet Lenin called this "a step forward" because the alternative in a mostly-peasant country was dominance of the petty producer and a reversion to agriculturalism instead of the construction of socialism.[696]

Such a charge and assertion that a proletarian political-economic authority either destroys capitalist property relations immediately or is destroyed by them is a description of the "weak link's" political-economic situation and necessity as if it were a simple choice. It automatically rules out every actually-occurring socialist revolution as every one of them had to build the class the theory assumed it would already have.

Plekhanov, the theorist of the stages this section has argued against, saw the cost of prematurity exactly and drew the wrong conclusion from it. In October 1917 he recalled Engels's warning that no misfortune is greater for a working class than taking power before it is ready, and in 1883 he had foreseen what production organized by a caste would become. The diagnosis held: the formation that broke through first had to build the class and the base it had been told to wait for, under the caste he predicted. The conclusion did not: like 1793, the premature formation was the only way its content could enter the world, and the concessions it forced on the core lasted exactly as long as it did.[697]

The Bolshevik answer, from the *April Theses* through *The Tax in Kind* to *On Cooperation*, was that a gradual transition did not in itself mean restoration. The test was whether the state and party were moving toward the abolition of wage labor or managing it indefinitely. Marx's dictum was directional: "*Communism is for us not a state of affairs which is to be established, an ideal to which reality [will] have to adjust itself. We call communism the real movement which abolishes the present state of things*." A "degenerating form," to use Trotsky's later description of the Soviet Union under Stalin, would cease moving in that direction and enable capitalist restoration. Market reforms, the persistence of wage labor and the return of private ownership supplied the opposing charge against the Soviet Union from the 1950s to 1991.[698]

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[696] Lenin, V. I. "The Tax in Kind (The Significance of the New Policy and Its Conditions)." 1921. In Collected Works, vol. 32, 329–65. Moscow: Progress Publishers, 1965. https://www.marxists.org/archive/lenin/works/1921/apr/21.htm

[697] G. V. Plekhanov, open letter to the Petrograd workers, Yedinstvo, No. 173, October 28, 1917, recalling Engels, The Peasant War in Germany (1850); Plekhanov, Socialism and the Political Struggle (1883), chapter III.

[698] Marx, Karl, and Friedrich Engels. The German Ideology. 1846. Moscow: Progress Publishers, 1968. Free online text: https://www.marxists.org/archive/marx/works/1845/german-ideology/index.htm Part I, "Feuerbach."

Starting in *On Cooperation*, in January 1923, Lenin signaled that the road to socialism in Russia ran through a multi-decade phase of using cooperative and market mechanisms to develop the productive forces under party political control. Nikolai Bukharin, the party's theorist of the "peasant road to socialism" took this to a logical extreme and built his theoretical work around it. The transition to socialism, according to Bukharin, could be carried out through the gradual integration of the peasantry into cooperative forms during an even more gradualist industrialization over a generational timeline, while the party retained political supremacy, with the productive forces developed through tightly controlled and regulated capitalist methods and indeed actual capitalists over decades. This is essentially again the smirking Menshevik stagism reasserting itself: actual transition to socialism happened when the material base could sustain it after a period of capitalist development, a smudge of a party on top or not, and likely with party capture by such industrial capitalist and petty bourgeois forces.[699]

Stalin destroyed all this in 1928, preventing the theory from ever being tested for more than around seven years. The First Five-Year Plan, forced collectivization, the "destruction of the kulak (small landowner) as a class" all flow from the adoption of the 1928 Plan. Bukharin himself was shot in 1938, partially for his "capitalist-roaderism" to borrow a later Maoist purge-era term. Stalin's crash industrialization built a productive military-industrial base that defeated the Wehrmacht at Stalingrad, and subsequently put a human being in space. Bukharin's gradualist agrarian-industrial alternative faced the danger that Nazi Germany would attack before the productive base had matured. I judge that threat a severe constraint on its prospects. Stalin's own course was still nearly crushed by the Nazis in the initial invasion. All paths can fail under pre-nuclear security conditions: Bukharin's path can be destroyed by competitive power concentrators.

The case against starts with the cost. R. W. Davies and Stephen Wheatcroft estimate 5.5 to 6.5 million excess deaths in the famine of 1932 and 1933, and the herds were roughly halved. They trace the famine to rapid industrialization together with agricultural misjudgments, disruption and bad harvests. They reject the claim that a slower path of the NEP kind was viable in Soviet conditions, and they also reject the claim that industrialization had to take the form it took: they call the investment plans of 1929 to 1931 unfeasibly high and wasteful.[700] The economists who measured the flow between farm and city found that the countryside's net contribution, its sales minus its purchases, was no greater during the first plan than in 1928, partly because industry had to replace the draught power of the lost livestock. Mark Harrison, summing up the debate in 1978,

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[699] V. I. Lenin, "On Co-operation" (1923); Lars T. Lih, "Political Testament of Lenin and Bukharin and the Meaning of NEP," Slavic Review 50, no. 2 (1991): 241–52.

[700] Davies and Wheatcroft, The Years of Hunger (2004), 401, on excess deaths of 5.5 to 6.5 million, and chapter 10 on the livestock, and their "Stalin and the Soviet Famine of 1932–33: A Reply to Ellman," Europe-Asia Studies 58, no. 4 (2006), 626. For the herds in Soviet data, horses at 54.6% and cattle at 57.7% of their 1928 numbers in 1932: Raya Dunayevskaya, "Russian Agriculture, 1928–41" (1942), https://www.marxists.org/archive/dunayevskaya/works/1942/russian-economy/ch03.htm.

held that small peasant farming could not have fed growth that fast, and reported the view that a less ambitious plan would have grown faster. The priority may have been right. Whether this pace and this method were the only way to serve it is what the record disputes.[701]

Such a victory under Stalin still deformed the party and society. Extreme repression of dissenting thought locked the USSR into a development pattern whose consequences played out across the next 60 years. Stalin's path concentrated enough power to defeat its rivals, then consumed itself through that concentration over the subsequent decades.

A victorious framework becomes institutionalized, and the institution loses the capacity to question how it has won and how it can continue to win as the victorious framework becomes catechism. Material conditions change. The institution cannot perceive the change. The Soviet Party-bureaucracy that won the Great Patriotic War against Nazi Germany became, across the next 46 years, the apparatus that could not be successfully reformed because its legitimacy depended on a catechized and venerated framework that had won its defensive war against societal extermination, and structural critique of the framework was seen as essentially de-legitimizing both the victory and the apparatus, traitorous behavior to the Soviet Motherland. Khrushchev's de-Stalinization in 1956 did succeed partially in bucking this trend, but notably Khrushchev's clique was sidelined, and further de-Stalinization was checked by Brezhnev's consolidation after 1964. When Gorbachev attempted serious reform in 1985, the apparatus had been ossifying for 32 years past Stalin's death, the late reform itself producing the destruction of the system.[702]

The Soviet arc from 1945 to 1991 shows a victorious method hardening into dogma. Had China followed the same timetable after 1949, its system would have ended around 1995. It did not. What may have interrupted that course, and does the interruption explain China's structural difference from the USSR?

Mao's "New Democracy"

How did China behave under the similar circumstances? The early post-war economy after the victory in the civil war was substantially mixed, with tolerated private businesses, markets and private farming allowed in post-war ruins. There was a similar shift to central

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[701] Barsov (1969). Millar (1974), and "Two Views on Soviet Collectivization of Agriculture" (1981), 2–5, on the shared finding and the disagreement. Ellman (1975). The two differ on method as well: Ellman, following Barsov, measured the flows in labor values derived from rouble values, which Millar disputed. Harrison (1978), author's postprint pp. 3–4 on Barsov's finding, the lost livestock and Ellman's reading, and p. 8 on Barsov's view of the plan's pace (Barsov 1969, 96).

[702] Yurchak, Alexei. Everything Was Forever, Until It Was No More: The Last Soviet Generation. Princeton: Princeton University Press, 2005. https://press.princeton.edu/books/paperback/9780691284484/everything-was-forever-until-it-was-no-more

planning: Mao's First Five-Year Plan, from 1953 to 1957, was Soviet-modeled and substantially successful. Industrial output rose, infant mortality dropped, literacy expanded. The Soviet developmental model worked when applied to Chinese conditions in the early phase.[703]

The Hundred Flowers Campaign of 1956 invited debate, and the Anti-Rightist Campaign of 1957 reversed the opening and turned to purges.[704]

The Great Leap Forward of 1958 tried to jump from semi-feudal conditions directly into socialism. The leadership again relied on mass mobilization and ideologically driven volunteer labor for industrial development, taking the Stalinist Stakhanovite model of celebrated workers exceeding production quotas to an extreme. This was wildly miscalibrated to the post-war conditions and produced famine while achieving few of the industrialization goals, one of many heavy prices the Maoist apparatus paid for testing whether ideologically-based mass mobilization could substitute for productive base development.[705]

The 1962 to 1965 recovery under Liu Shaoqi and Deng Xiaoping was a return to Soviet-style "pragmatic development" with the Great Leap excesses corrected.[706]

It is also when the security environment changed categorically. The nuclear test at Lop Nur on October 16, 1964, made China a nuclear power. An invader now had to weigh the risk of nuclear escalation on top of military feasibility. The Vietnam War's escalation from 1965 onward also tied down American military capacity at scales that constrained American options elsewhere.

By 1965 the agricultural base had recovered, industrial production had resumed, and the Party-bureaucracy that Mao had feared was reasserting itself. This is when the Cultural Revolution begins to emerge as Mao's second, more deliberate attempt to subordinate the Party, attack "pragmatist" and "capitalist roader" development advocates, and try again at an immediate, voluntarist leap from semi-feudal conditions straight into socialism without bourgeois development.

The reassertion was concrete. The State Planning Commission was rebuilding the technocratic apparatus the Great Leap had partially dismantled. The Ministry of Public Security was reconstituting discipline and surveillance on patterns imported from the Soviet model of the 1950s. Promotion across the Party-state was reverting to seniority,

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[703] Andrew G. Walder, China Under Mao: A Revolution Derailed (2015).

[704] Mao Zedong. "Speech at Expanded Meeting of CPC Political Bureau." April 28, 1956. https://www.marxists.org/reference/archive/mao/selected-works/volume-7/mswv7_468.htm See also Andrew G. Walder, China under Mao: A Revolution Derailed (2015), on the Hundred Flowers and Anti-Rightist campaigns.

[705] Andrew G. Walder, China Under Mao: A Revolution Derailed (2015).

[706] Andrew G. Walder, China Under Mao: A Revolution Derailed (2015).

technical competence and administrative loyalty. It was the pattern the Soviet apparatus was locking into at the same moment under Brezhnev.[707]

The Sino-Soviet split intensified through the 1960s. The space for internal political disruptions within the communist movement that had been foreclosed since 1949 by the requirement of maintaining maximum external readiness to defend against capitalist invasion or encroachment suddenly opened up.

China's strange luck is now specifiable. The hyper-destructive war happened before and at the moment of the founding of the People's Republic, not after the party's victory. The Sino-Japanese War from 1937 to 1945 killed 14 to 20 million Chinese.[708] The Civil War to 1949 added millions more.

Such battles would have been Stalingrad-equivalents for an existing, society-wide People's Republic created in, say, the 1920s. They occurred instead before the revolution took hold of the country, while the Party was an insurgency holding base areas instead of a government holding a country.

The Party absorbed the destruction as a formative experience, rather than as a test of an already established government. That burden fell on the Nationalist government, the Kuomintang or KMT, which lost the mainland amid warlordism, famine and social collapse that had persisted since the fall of the last dynasty.

The famine of 1959 to 1961 was a catastrophe, but it came after the founding. The Leap won nothing, and the party had set its method aside within three years. The 15-year gap between founding and the first atomic test was short enough that institutional ossification had not completed when it arrived. The Cultural Revolution then did to the party's institutions the kind of damage that would normally come from external war, but at a moment when the security evolution absorbed the political vulnerability the damage produced. The damage was self-produced and, as it turned out, reformable. The damage that comes from externally imposed war is often less able to be these things.

Mao launched the Cultural Revolution in 1966 in this environment. The 1981 *"Resolution on Certain Questions in the History of Our Party Since the Founding of the PRC"* formally characterized the Cultural Revolution as catastrophic and named the human cost directly. The contemporary Chinese Communist Party (CCP) carries this judgment in its official history. It can acknowledge its own contradictions in writing, a capacity the Soviet system never fully managed in addressing analogous traumas, including de-Stalinization.[709]

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[707] Andrew G. Walder, "Bending the Arc of Chinese History: The Cultural Revolution's Paradoxical Legacy," The China Quarterly (2016), on organizational reconstruction and the later reform coalition.

[708] Rana Mitter, Forgotten Ally: China's World War II, 1937–1945 (2013), 363, for the 14–20 million estimate.

[709] Chinese Communist Party, "Resolution on Certain Questions in the History of Our Party since the Founding of the People's Republic of China," adopted June 27, 1981.

The sociologist Andrew Walder reads the Cultural Revolution as the opposite of what its authors intended: by wrecking the party and state bureaucracy it cleared the ground for market reform and, in the rebuilding, renewed the party-state that carried the reform out. The CCP's own verdict grants none of this. The Resolution of 1981 holds that the Cultural Revolution "did not in fact constitute a revolution or social progress in any sense," the gravest setback since 1949 and chiefly Mao's error. It could say so and survive because it separated the two: Mao Zedong Thought was declared the Party's collective wisdom, and the Cultural Revolution the late error of a leader whose merits it still ranked first. The framework that produced the catastrophe remained the framework capable of assessing it, and the assessment did not destroy the framework. The Chinese resolution made an adverse judgment part of the party's official history while retaining its authority. That demonstrates a capacity for retrospective correction. Enforceable correction of current policy depends on the institutions examined here.[710]

The institutional consolidation that had produced the Soviet Party-bureaucracy was attacked from below in China before it could complete, which broke the momentum toward a Chinese Brezhnev stagnation by the 1980s, so that the Party Deng inherited in 1978 was a chastened, internally fractured, partially destroyed institution that retained the memory of its own vulnerability and of Mao's excesses, as they still call it. The intellectuals returning from the countryside were grateful and not entrenched, and the cadres who had been purged and rehabilitated had personal experience of institutional collapse and did not defend their positions against reform with the rigidity their Soviet counterparts would later show. The Cultural Revolution, a demolition Mao directed at the party bureaucracy, weakened barriers that might otherwise have blocked Deng's reforms.

The Cultural Revolution is the variable liberals and "western Marxists" have been least equipped to read. Treated only as catastrophe caused by an individual, it is incomprehensible as anything but a senile leader's vanity. Treated only as a correct structural intervention against Party ossification, it becomes apologetics for what was lived through as chaos and terror akin to the Jacobin Reign of Terror. The adequate reading holds both in all cases, and separates intent from effect: the intent was permanent mobilization against a restorationist force real or imagined, and the later institutional effects this work finds were most likely not intended by anyone. The human cost was real. The structural effect of disrupting institutional consolidation before ossification could complete was also real, and helped make Deng's Reform and Opening institutionally available in a way Gorbachev's reform was not. A reader unwilling to hold both at once will be unable to read the contemporary CCP.

The Lin Biao incident of September 1971, the People's Liberation Army defense minister's mysterious death in a plane crash, killed the avatar of the most ideologically Maoist and hardline anti-American faction in the senior leadership. Lin Biao was Mao's designated

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[710] Walder, "Bending the Arc of Chinese History: The Cultural Revolution's Paradoxical Legacy," The China Quarterly (2016); Shirk, The Political Logic of Economic Reform in China (1993), on Chinese institutions more flexible and less centralized than the Soviet ones; Resolution on Certain Questions in the History of Our Party since the Founding of the People's Republic of China, June 27, 1981.

successor, the senior figure most committed to permanent revolutionary mobilization against internal "capitalist roaderism" and US imperialism. His political program required the Cold War posture that had organized Chinese or Soviet strategic thinking for the prior two decades.[711]

The Nixon opening required institutional acceptance of strategic accommodation with the principal enemy of those two decades. The split with Moscow had culminated in the Zhenbao Island border clashes of March 1969 and Soviet soundings about strikes on Chinese nuclear facilities that was leaked through American channels later that year,[712] and the war scare is what turned Mao toward Washington. The Nixon visit in February 1972 was the strategic punctuation, conducted on the institutional ground the Cultural Revolution had cleared.

Reform and Opening

Deng's 1978 Reform and Opening Up recovered NEP's structure and directly connected it with the offshoring of American industry whether or not its authors named the precedent. The transition phase was to last decades, possibly a century. The "primary stage of socialism doctrine," formalized in 1987, made this explicit: China is in the primary stage of socialism which lasts at least 100 years from the socialist transformation of ownership in the mid-1950s.[713] During such a developmental stage, productive forces must be created through controlled use of capitalist methods, foreign investment, and market mechanisms, while the party retains absolute political and economic supremacy and the long-term goal of socialist development is preserved. The end of the primary stage transitions to socialist development proper. The end of socialist development transitions to communism. The timeline is intergenerational, nearly stagist.

The transition phase was given an explicit duration, preventing a Stalinist and later Maoist impatience for ideologically correct voluntarist leaps toward socialist construction that destroyed NEP in the original case. Foreign investment was channeled and not allowed to dictate terms. The party was initially partially insulated from the wealth accumulation it permitted. The "commanding heights" of strategic industry stayed nationalized and the party stayed above the wealth it licensed, which is why a turn was available when it came.

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[711] Andrew G. Walder, China Under Mao: A Revolution Derailed (2015).

[712] U.S. Department of State. Foreign Relations of the United States, 1969–1976, vol. XXXIV, National Security Policy, 1969–1972, document 66, on Soviet soundings about an attack on Chinese nuclear facilities. https://history.state.gov/historicaldocuments/frus1969-76v34/d66

[713] Communist Party of China. Report to the Thirteenth National Congress on the Primary Stage of Socialism. Beijing Review 30, no. 45 (November 9–15, 1987). https://www.massline.org/PekingReview/PR1987/PR1987-45.pdf

This reaches into the NEP debate's hardest problem, one Preobrazhensky formalized from inside NEP, while another Soviet economist and intellectual Kritsman simultaneously rejected much of NEP as a period of primitive capitalist accumulation.[714]

Preobrazhensky's law of "primitive socialist accumulation" held that there is no equilibrium between the state sector and pre-socialist forms: either the state sector accumulates at the expense of private ownership through nonequivalent exchange, or the private forms accumulate at the expense of the state sector. The direction of transfer decides which mode of production is being built.[715]

The test Preobrazhensky specified still applies, and it cuts in both directions: which sector accumulates, at whose expense? Lenin's last article had already given a third answer: the state sector could accumulate at the expense of the state's own extravagance, every saving in the apparatus to be turned to electrification and large-scale industry, with the peasant alliance kept intact.[716]

Applied to China's reform era, the test separates industrial growth from socialist accumulation. From the 1980s to 2012, a much larger productive base could be built while private owners gained command over production and its surplus. On this work's reading, that movement was a retreat from socialist accumulation, even where it increased output. In the restructuring of 1996 to 2001 about 40% of state firms passed to private owners, mostly their own managers and staff, often at a discount.[717] That is a concrete transfer in the direction Preobrazhensky warned against.[718]

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[714] Lih, Lars T. "Political Testament of Lenin and Bukharin and the Meaning of NEP." Slavic Review 50, no. 2 (1991): 241–52. https://www.jstor.org/stable/2500200; E. A. Preobrazhensky, The New Economics (1926).

[715] Preobrazhensky, E. A. The New Economics. 1926. Translated by Brian Pearce. Oxford: Clarendon Press, 1965. Free online text: https://www.marxists.org/archive/preobrazhensky/1926/newecon/the_new_economics.pdf Chapter 2, "The Fundamental Law of Socialist Accumulation."

[716] Lenin, "Better Fewer, But Better," Collected Works, vol. 33, 487–502, on using "every saving we make" to develop large-scale machine industry and electrification while the workers retain the confidence of the peasants.

[717] Ross Garnaut, Ligang Song and Yang Yao, "Impact and Significance of State-Owned Enterprise Restructuring in China," Stanford Center for International Development working paper 204, 2004 (about 40% of state firms privatized in 1996 to 2001, mostly to insiders, discounts on net assets in about 20% of surveyed cases), https://kingcenter.stanford.edu/sites/g/files/sbiybj16611/files/media/file/204wp_0_0.pdf.

[718] Preobrazhensky, E. A. The New Economics. 1926. Translated by Brian Pearce. Oxford: Clarendon Press, 1965. Free online text: https://www.marxists.org/archive/preobrazhensky/1926/newecon/the_new_economics.pdf Chapter 2, "The Fundamental Law of Socialist Accumulation."

Retaining state control of strategic industries left a means of changing course. It did not ensure which course would be taken: the reform era contained struggles over the direction of accumulation, and greater industrial output could strengthen private owners as well as the state. The later turn has to be understood as a political response to that history.

The crisis of 2008 exposed the risks of the enlarged world market into which China had grown. The reassertion after 2012 was a later political turn, and it contained competing commitments. The 2013 reform decision still assigned markets a decisive role in allocating resources.[719] In 2021 Xi tied common prosperity to the predominance of public ownership while also supporting private enterprise and restraining capital's expansion.[720] I read the later discipline of platform and property capital, alongside investment in the plan's provision targets, as an attempt to reverse that transfer. Its success depends on where the surplus goes and whether those who need the provision can insist on it when private returns fall.

Transitions to Modernity

By the 1980s, the common wisdom goes, capitalist economies and especially the United States was out-producing, and more culturally viable than, Soviet planning. The collapse of 1991 and the adoption of capitalism in China was that pre-known verdict arriving.

The question is whether instead, a later and better-positioned vehicle fuses the old with the new and in doing so paves the way for a superseding, the way Britain fused merchant and monarch, paving the way for the United States to completely supersede the constitutional-merchant-monarchy into the full, "unleaded" bourgeois-democratic order well after the Napoleonic precursor bubble was popped.

The Soviet Union may very well have been the 1789-to-1815 episode, premature, crushed, its content half-diffused and half-reversed, France never more productive than Britain but more able to mobilize and shake the existing foundation out of a stupor of prior, outdated production, military and societal practices.

Such a productivity differential is exactly where a repair happens today. The productive question has reopened in this century on inverted terms: a potential successor, post 2012-turn, now carries the more productive economy in the domains that set the next global industrial base precisely through planning, and the now-financialized US is not out-producing it. The engine that drained the monarchical sea into our current bourgeois-democratic globe is again present, attached to a different carrier than the one that was crushed in 1991.

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[719] Chinese diplomatic mission. "The Third Plenary Session of the 18th Central Committee of the Communist Party of China: A New Opportunity to Develop China-Russia Relations." December 23, 2013. https://lt.china-office.gov.cn/eng/xwdt/201312/t20131231_2709577.htm. Question 4.

[720] Xi Jinping. "Making Solid Progress Toward Common Prosperity." Speech, August 17, 2021. English Edition of Qiushi Journal, November–December 2021; web text updated January 18, 2022. https://en.qstheory.cn/2022-01/18/c_699025.htm.

If Britain was the rising fusion of monarchy and merchant-state in 1815, a capitalist essence carried inside the monarchical form, then China is a candidate fusion now, a planned socialist essence carried inside a non-Absolutist-capitalist form, with the industrial development, the private firms, and the Shanghai billionaires as the birthmarks the way the crown and the Lords were Britain's. Fusion has three overlapping meanings here. Britain carried capitalism inside a monarchy, preserving the old political form around a new relation. After 1688 the English state also absorbed its predecessor's financial methods. The Holy Alliance, by contrast, borrowed conscription to defend an incumbent order. China is a candidate for the first, which is why its test is whether planning subordinates private accumulation.

The birthmark concept cannot be had for free. Reading the "red" as essence off iconography of the Hammer and Sickle alone is the same error as reading capitalism as essence of the existence of markets alone, and Britain's case seen through the Preobrazhenskyist lens is the real test to re-run: the ownership-of-property and political powers recorded over time, the residue of the last system either subordinated across the decades or subordinating. Private capital is an active force, reproduced through investment, markets and inheritance. Its continuing subordination is part of what the following tests must establish.

The Concert of Europe is the strongest of the historical echoes and close to exact. After crushing the Revolution and enacting the Restoration, the monarchical "shells" adopted the bourgeois forms while keeping their prior dynastic essence: the modernizing state, the fiscal-military apparatus, eventually industrial development, and yet the essence grew inside the rotting monarchical shell for decades. In 1918 a crisis caused "the new" to finally burst forth from the rotted carcasses, propagating new republics, constitutional monarchies, socialist revolts and fascist reactions.

The condition is that there must be real content for such a mechanism to run. The monarchies' attempt to industrialize and build the modern state created real bourgeois-democratic content which grew inside the old form. The dialectical bet is the same today: the content of the Soviet experiment was real, China's planning core may be socialist content growing inside the old form, a question the China chapters test, and the limits of the current mode of production are intensifying to a general conflict. Something will burst from the rot at this next rupture.

The pressure appears in the capitalists' increasing adoption of planning forms, while keeping the capital-accumulating purpose, with state equity stakes, state-directed industrial policy, export controls and tariffs, and emergency defense requisition unquestionably taking over for the "free hand of the markets" inside the US and other capitalist societies, and the general right-ward, reactionary lurch of the current decade. These forms show an expansion of state direction. Their class character depends on who controls investment and receives the surplus, the questions tested in the later China chapters.

XXVI. Can It Clear?

The American chapters asked one question of each organ: can this order destroy its own claims and survive? The same question has to be put to China. The evidence is mixed, and it begins with episodes in which the state destroyed claims on purpose.

Would China replace the United States at the center of the same system, or could its development produce a different one? I call the first outcome recomposition: capitalism continuing around a new center. Part Five sets the second beside two others, an authoritarian core and systemic chaos, as the branches along which the crisis can resolve. I argue that the People's Republic can sustain a different course, but industrial scale alone cannot establish it. The questions are who controls investment, whether workers can challenge those who govern in their name, and whether private wealth can turn into governing power. The chapter tests those questions against China's development, the charge of state capitalism, and the party's efforts to prevent its own bureaucracy from becoming rigid or captured. Each can fail even when the others hold.

Since 1949 two traditions, the liberal and the Western Marxist, have predicted that the project must fail. The predictions have been continuously wrong about timing while sometimes correct about underlying fragilities, and the traditions making them have not revised their frameworks.

China itself faces two failure modes that have to be overcome. The first is ossification, the trajectory the Soviet Union exhausted, in which a project calcifies into catechism, cannot perceive changed conditions, and becomes incapable of self-correction. The second is capture, the trajectory in which a project becomes functionally identical to authoritarian capitalism, where the party-state apparatus gets captured by the domestic capitalist class it was supposed to direct, and the resulting formation is America or Russia 2.0. Both failure modes are live, but both are at least partially addressed by the institutional response Beijing has been constructing across the past decade. Whether the response is sufficient is what will be tested.

The CCP is recovering a gradualist alternative the Bolshevik tradition had identified, tested, and lost. Bukharin's path was a serious analytical position, and its risk was capture, a party steered by the capitalists it licensed. The question for the China argument is whether the lost alternative can be recovered under different conditions, and whether the conditions of the recovery prevent the failure mode that destroyed the original.

The closed exit

One datum from the summer comes first, because it puts the class question in a form that can be measured. The class-character debate turns on which direction the discipline runs, since the billionaires demonstrably exist and survive their fines. In the Western cases, capital disciplines states through its ability to leave. Mitterrand's government in France reversed course in 1983 under capital flight and pressure on the franc, choosing to remain

in the European Monetary System,[721] and Syriza's in Greece was brought to terms in 2015 when the European Central Bank capped the emergency liquidity its banks could draw.[722] Capital rules constitutional states through its option to leave.

In May the securities commission fined the largest offshore brokerage $271 million and closed the channel itself: the travel-quota loophole declared off limits, the offshore trusts taxed as of late July, mainland accounts reduced to sell-only, the surplus rerouted into licensed domestic channels that return profits in yuan. The measure was aimed at the channel where earlier ones had been aimed at men. If it holds, a capitalist class that cannot flee cannot rule by the threat of flight, and the weapon that broke every Western subordination of capital has no ammunition. Whether it holds can be read, imperfectly, in the errors-and-omissions line of the balance of payments, a residual that mixes statistical discrepancy with unrecorded capital flows and where Chinese flight has long been read, through the next season of pressure on the yuan. The strongest counter-reading, the bureaucracy as collective capitalist consolidating itself by breaking individuals, is answered only by where the trapped surplus is then directed. But if the door holds the structural veto is gone, and its absence would be the strongest single datum the durability claim yet has.[723]

The exit was closed against a deal that had run for 40 years. For four decades of reform the state had let private wealth accumulate lightly taxed in exchange for growth and employment. Wages and business profits were taxed, while particular forms of wealth were exempt: no tax on individuals' gains from mainland shares, no estate tax, no property tax outside the two cities where pilots began in 2011. The machinery an American fortune has to build for itself, buy, borrow, and die, was supplied in China as the default. The wealth left anyway, because there was nowhere at home for it to grow after 2007 and because a socialist state's deal never promised that the tax would not one day arrive. On estimates of net capital outflow, a trillion dollars left in 2015 alone. The other measures, of illicit flows, emigrating millionaires and trust assets held abroad, count different things and cannot be added to it.[724]

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[721] Eloire, Fabien. "France's 1983 'turn toward austerity' as a regulatory process: Study of an economic policy decision." Revue française de sociologie 61, no. 2 (2020): 207–241. https://shs.cairn.info/article/E_RFS_612_0207?lang=en ; Rodrik, Dani. "IMF needs fresh thinking on capital controls." Business Standard, November 17, 2009. https://www.business-standard.com/article/opinion/dani-rodrik-imf-needs-fresh-thinking-on-capital-controls-109111700024_1.html

[722] European Central Bank. "ELA to Greek Banks Maintained." July 6, 2015. https://www.ecb.europa.eu/press/pr/date/2015/html/pr150706.en.html

[723] China Securities Regulatory Commission announcement, May 2026; State Taxation Administration, July 2026.

[724] Global Financial Integrity, Illicit Financial Flows from China (2012), on a method GFI revised in 2013; Henley and Partners, Private Wealth Migration Report; CNBC on Hong Kong trust assets. The other measures: Global Financial Integrity estimated illicit outflows at $3.8 trillion for 2000 to 2011; more than 15,000 millionaires emigrated in 2024, a count

What ended the deal was visibility and need. China joined the Common Reporting Standard in 2015, and the account data began flowing in 2018, from 52 jurisdictions that year and 80 by 2024, with the United States the one hole in the net.[725] At home the property registry, the digital tax system, and the traceable currency made what is held inside the country as visible as what is held outside. The land-sale revenue that had funded local government fell with the property sector, near half a trillion dollars a year of it, and personal income tax rose 13% in the first half of 2026 against roughly 5% growth in total tax revenue on the ministry's figures, almost all of it from high earners.[726]

Then the doors closed in order: gains on American shares bought through Hong Kong brokers taxed, Hong Kong insurance policies taxed on their investment income,[727] offshore trusts taxed, gifts out of the trusts taxed on the gain, a foreign passport no exit for anyone whose home, family, and business remain in China. These gains and this income are taxed at the statutory 20% rate. For property in an offshore trust covered by the rules, with a settlor who meets their residency conditions, the gain is taxed or carried to the heir at the settlor's death.[728] For those trusts the one loophole the American fortune lives inside, the gain that vanishes when its owner dies, does not exist. What remains untaxed is domestic,

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of people and not of money; half of Singapore's 10 richest were born on the mainland; and the Hong Kong trusts, a stock of assets held abroad, held $670 billion, more than half of it mainland and Hong Kong money.

[725] OECD, Common Reporting Standard exchange partners (2018 and 2024), https://www.oecd.org/en/publications/peer-review-of-the-automatic-exchange-of-financial-account-information-2024-update_1aa02413-en/full-report/details-of-the-exchange-agreements-in-place_3e7b4bb4.html and https://www.oecd.org/en/topics/sub-issues/international-standards-on-tax-transparency/automatic-exchange-of-information-exchange-relationships.html. The exchange partners include Hong Kong, Singapore, Switzerland, the Virgin Islands, and the Caymans.

[726] OECD, Common Reporting Standard exchange partners, 2018 and 2024, https://www.oecd.org/en/publications/peer-review-of-the-automatic-exchange-of-financial-account-information-2024-update_1aa02413-en/full-report/details-of-the-exchange-agreements-in-place_3e7b4bb4.html and https://www.oecd.org/en/topics/sub-issues/international-standards-on-tax-transparency/automatic-exchange-of-information-exchange-relationships.html; Ministry of Finance of China, fiscal revenue and expenditure in the first half of 2026, July 22, 2026 (personal income tax 898.2 billion yuan, up 13.1% on the year, against tax revenue up 5.3%; land-use-right sales 977.8 billion yuan, down 31.5%), https://gks.mof.gov.cn/tongjishuju/202607/t20260722_3993943.htm; the same for January to July 2026 (personal income tax up 14.9%; land-use-right sales 1.17 trillion yuan, down 30.8%), https://gks.mof.gov.cn/tongjishuju/202608/t20260814_3995497.htm.

[727] State Taxation Administration, statement of August 7, 2026: investment income from overseas insurance policies falls within a resident's worldwide taxable income under existing rules and is not a new Hong Kong measure, while insurance compensation is exempt under art. 4(5) of the Individual Income Tax Law.

gains on mainland shares, estates, property outside the pilots, left alone while the markets that carry them are fragile. The sequence is the one the direction test needs: the exit closed first, the tax followed, and the fortune that stayed is visible to the state that let it form. The class that got rich first in China is being billed for the 40 years, and the bill is the deal ending.[729]

The economist David Laibman, then editor of *Science & Society*, set out the test in 2020 in three parts. China's new wealth, he argued, was not yet a capitalist class in the full sense because it could not easily move abroad, across industries, or between generations. His description came too early: the condition held only after the state shut the channel. The restrictions on wealth leaving China bear most directly on the first part. Whether they durably reduce capital's ability to leave is what the exit test will establish. They meet the second only in part: the state steers capital out of property and into strategic manufacture, but an owner can still move money between industries at home. The third remains unmet. Gains held in covered offshore trusts are taxed at the settlor's death or carried to the heir, but domestic estates are untaxed, so a fortune passes on smaller but intact. An official's stewardship of state assets cannot be bequeathed, but that is a different kind of property from a private fortune.[730]

Closing the exit also bears on the democracy question Laibman puts at the center. In the West, capital can overrule elected governments by leaving or by withdrawing credit. Marx and Lenin used "dictatorship of the proletariat" for a state in which the working class rules and the propertied class loses the political powers it holds under capitalism. Taking away the option to flee removes one of those powers, but leaves open who rules in capital's place. Laibman's objection still stands: can workers direct the institutions that now direct capital? A second fact cuts the other way. Since 2001 the party has admitted private entrepreneurs as members, a change Jiang Zemin, then general secretary, announced that July and the party wrote into its constitution the next year.[731] Beijing has closed the exit to capital's owners and opened the party to them. The risk is that wealthy party members will come to steer the party rather than remain subject to its discipline.

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[728] Ministry of Finance and State Taxation Administration, Announcement No. 21 of 2026, July 24, 2026, arts. 3 to 7 and 11: tax on the gain when property enters an offshore trust, yearly on its income whether or not distributed, on gifts and distributions of trust property, on termination, on the settlor's emigration and at the settlor's death, with residency reaching holders of foreign passports whose main economic interests remain in China.

[729] ProPublica, June 2021 (the true tax rate of the 25 richest, 2014 to 2018); the personal income tax and land-revenue figures as reported. Ben Chen, "China Takes One Step Closer to Real Socialism," YouTube, September 2026, https://www.youtube.com/watch?v=r5-QyN2dHoQ, for the sequence of measures. ProPublica's measure is a different one, federal income tax paid divided by the growth in wealth; on it the 25 richest Americans paid a true rate near 3.4% from 2014 to 2018, a figure that cannot be set against a statutory rate.

[730] David Laibman, "China: In the Perspective of Historical Materialism," Science & Society 84, no. 2 (April 2020): 171–203, https://guilfordjournals.com/doi/pdfplus/10.1521/siso.2020.84.2.171.

The institutional response

The institutional response can be read against each failure mode. Ossification was the Soviet failure mode. The response Deng built after the Cultural Revolution had two parts. The 1981 Resolution condemned the Cultural Revolution in writing and kept the framework that produced it,[732] a self-criticism the Soviet party never made into an institution after Khrushchev's speech of 1956. The procedural part was term limits, collective leadership and retirement by age. The Xi consolidation set much of the procedural part aside, and the Soviet case shows the risk: concentration is how its apparatus hardened. The handling of succession at the 2027 party congress will provide the first test of that risk.

Capture is the second failure mode. It became most visible in the Jiang Zemin years of the 1990s and 2000s, when the Shanghai faction was associated with coastal market reform and alignment with business elites. The response to this failure mode has also been the Xi consolidation, preceded by Bo Xilai's removal from his posts in the spring of 2012. The anti-corruption campaign that followed Xi's accession took down substantial elements of the Jiang network, and the consolidation has also included the property-sector controlled non-rescue, the tech-platform crackdown, and the Common Prosperity campaign.

The property-sector demolition is real. Real estate's direct contribution to GDP fell from roughly 7.3% in 2020 to under 6% in 2023 on the value-added measure. Evergrande liquidated with over $300 billion in debt, at least 50 major developers entered restructuring, and state-owned developers now take the large majority of land purchases. The state cut the sector's credit with the three red lines and then declined a general rescue: it did not socialize the private developers' losses, bail out their creditors wholesale, or extend the implicit guarantee that had underwritten the prior expansion. The support that came later went first to finishing the buyers' homes and absorbing unsold stock, which eased some developers' cash flow, without a blanket guarantee for the developers' equity or their offshore debt.[733] Refusal of a general rescue at that scale is itself a doctrinal move,

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[731] Jiang Zemin, speech on the eightieth anniversary of the Communist Party of China, July 1, 2001. Constitution of the Communist Party of China, as amended by the Sixteenth National Congress, November 14, 2002.

[732] Walder, "Bending the Arc of Chinese History: The Cultural Revolution's Paradoxical Legacy," The China Quarterly (2016); Shirk, The Political Logic of Economic Reform in China (1993), on Chinese institutions more flexible and less centralized than the Soviet ones; Resolution on Certain Questions in the History of Our Party since the Founding of the People's Republic of China, June 27, 1981.

[733] The project whitelists of January 2024 and the local purchases of unsold housing from May 2024, as reported by Reuters at the time (May 17, 2024, copy at https://www.taiwannews.com.tw/news/5689140): support went to completion and to absorbing unsold inventory, which eased some developers' cash flow, without a blanket guarantee for their equity or offshore debt. The reporting under the three red lines was retired on January 28, 2026 (Cailianshe via Trivium China, January 29, 2026; Reuters and

the party-state that claims political authority over capital exercising that authority against a specific capitalist faction whose accumulation had begun to threaten the strategic project.[734]

The rest of the record is on the same scale and this work owes it the same standard. The local government financing vehicles, the off-budget borrowers that built the infrastructure the plan ordered and the land-sale revenue then stopped paying for, carry a debt that China's executive director at the Fund put at 44 trillion yuan.[735] On the Fund's 2024 count, general-government debt, the official borrowing of central and local budgets, stood at 60% of output, and augmented government debt, which adds the financing vehicles and other off-budget borrowing, at 124%. The 12 trillion yuan swap of November 2024 covered about a quarter of the hidden load on Fitch's estimate.[736]

Household consumption has sat between 38 and 40% of output for two decades, the lowest share of any large economy, and labor's share of income has moved only modestly. August's releases printed the divergence again, industrial value added up 5.2% on the year and retail sales up 0.4%, fixed investment down 7.2% over January to August, and the Bureau's own release naming an imbalance between strong supply and weak demand.[737]

Bloomberg the same week). Some developers had stopped reporting under the three red lines in 2023 (Bloomberg, January 29, 2026, https://www.bloomberg.com/news/articles/2026-01-29/china-forgoes-three-red-lines-to-lift-property-beijing-news).

[734] National Bureau of Statistics of China; the Hong Kong High Court's liquidation order of January 2024 (Evergrande); the 14th Five-Year Plan target for strategic emerging industries. The broader real-estate-and-infrastructure share of GDP fell from a 2015 peak near 34% to roughly 25% in 2025. Country Garden defaulted, and Vanke required state intervention by January 2025.

[735] IMF, People's Republic of China: 2024 Article IV Consultation, Country Report 24/258, with the statement by the Executive Director (general government debt 60.5% and augmented debt 124.0% of GDP for 2024, the augmented measure including the financing vehicles and government-guided funds; the director's 44 trillion yuan), https://www.imf.org/-/media/files/publications/cr/2024/english/1chnea2024003-print-pdf.pdf; Fitch Ratings, "China's New Fiscal Proposals Unlikely to Immediately Boost Growth," reproduced November 14, 2024.

[736] IMF, People's Republic of China: 2024 Article IV Consultation (augmented debt 124% of GDP, general government 60.5, total non-financial debt 312), https://www.imf.org/-/media/files/publications/cr/2024/english/1chnea2024003-print-pdf.pdf; the executive director's statement on LGFV debt (44 trillion yuan); Fitch Ratings, "China's New Fiscal Proposals Unlikely to Immediately Boost Growth," reproduced November 14, 2024; OMFIF, March 2025. On the same count, total non-financial debt, which adds the borrowing of households and non-financial firms to augmented government debt, stood at 312% of GDP.

The 2022 mortgage boycotts, buyers on more than 300 stalled projects refusing to pay for apartments that were not being built, and the Henan village-bank freeze the same summer, several billion dollars of deposits locked and depositors met by plainclothes police, were runs on the base of the system. The state ended both by administrative order and not by market clearing. The population has fallen every year since 2022.[738] These indicators describe strains in households, employment and finance; the profit rate requires its own measurement. State intervention can contain runs without eliminating the losses. The question is who bears those losses and whether the intervention moves production toward unmet needs.

China's welfare system leaves people very differently protected against losses. In 2023 the average annual pension in the residents' scheme was about 2,700 yuan, against roughly 45,000 yuan in the employee scheme.[739] That gap puts far more pressure on household

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[737] National Bureau of Statistics of China, September 15, 2026 (industrial value added +5.2% on the year in August from 4.5% in July; retail sales +0.4%, the slowest since May; fixed-asset investment -7.2% for January to August; "the domestic imbalance between strong supply and weak demand remains pronounced"), as reported by AFP and Business Today. New bank loans of 60 billion yuan in August: Reuters, "China August Bank Lending Disappoints as Credit Demand Stays Weak," September 14, 2026, calculated from People's Bank of China data, https://www.investing.com/news/economy-news/china-august-bank-lending-disappoints-as-credit-demand-stays-weak-4899093.

[738] National Bureau of Statistics (consumption share, population). Reuters, July 2022 (the mortgage boycotts) and Henan, July 2022 (the village-bank freeze), copy at https://www.euronews.com/2022/07/13/china-banks-henan-depositors and copy at https://www.investing.com/news/economy/china-probes-banking-inspector-in-henan-province-after-fraud-case-protests-2852394. NBS, June 2023 (the youth series suspended).

[739] Ministry of Human Resources and Social Security, 2023 Statistical Bulletin on the Development of Human Resources and Social Security (Beijing, June 2024), https://www.mohrss.gov.cn/SYrlzyhshbzb/zwgk/szrs/, copy at https://www.allbrightlaw.com/CN/10531/6a159533a0db9690.aspx. The averages are calculated here from fund spending and recipients: 6,375.7 billion yuan for 141.96 million retirees in the employee scheme, about 44,912 yuan each, and 461.3 billion yuan for 172.68 million recipients in the residents' scheme, about 2,671 yuan each. On the gap between the schemes, Han Gao and Bei Lu, "Reforming China's Public Pension System: Fiscal Sustainability and the Challenge of Formality-Based Inequality," Economic Modelling 153 (2025): 107336, https://doi.org/10.1016/j.econmod.2025.107336. In health insurance the individual premium was 10 yuan in the rural cooperative medical scheme launched in 2003 and 380 yuan in the residents' scheme in 2023; these are different schemes, and the National Healthcare Security Administration holds that the later premium buys far broader services and benefits. Enrollment in the residents' scheme fell by about 25 million in 2022, which the administration attributed mainly to the removal of duplicate registrations, 56 million over two years, and to subscribers moving into the employee scheme after graduating or starting jobs; a net fall in enrollment is not a count of uninsured people. Wang Xiaoyu, "Medical Insurance Enrollment Stable," China Daily, March 26, 2024,

earnings and family support when work disappears. It does not tell us who absorbed the losses of industrial policy. The test is whether intervention shifts those losses onto already weakly protected households, or expands their income and access to services.

The tech-platform crackdown was also substantive: the Jack Ma humiliation of late 2020, the Ant Group IPO suspension, the ride-hailing platform Didi's delisting. The claim these facts carry does not move with the stock cycle. The platform, property, tutoring, and fintech crackdowns happened, imposed sector-wide losses, left no victorious private faction, and the regime remains in force, with Ant still broken up, the three red lines' monthly reporting dropped by the regulators in January 2026, and the commanding heights still state-owned. The Peterson Institute for International Economics' tracker puts the private sector at 41% of the market value of the top 100 listed Chinese companies by mid-2026, still far below the 55.4% peak of mid-2021.[740] The measures answer different questions, what share of the market's value private owners hold, what share of registered capital sits in firms the state has a stake in, and what the state itself owns. None of them alone shows who controls investment, which is why control of investment must be assessed together with distribution and durability.

The rebound was driven by technology firms in the AI boom, with Tencent, Alibaba, CATL, Xiaomi, and BYD among the private names in the top 100.[741] Recovery within bounds under continued structural crackdowns is subordination and not abolition, a pattern consistent with political discipline of private firms. Whether it also fits Milanovic's autonomous bureaucratic elite remains the contested question. Capital is being channeled instead into the strategic emerging industries, which rose from about 8% of GDP in 2015 to over 13% in

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https://global.chinadaily.com.cn/a/202403/26/WS66021f68a31082fc043be9ed.html; Yanzhong Huang, "China's Emerging Welfare Crisis," Think Global Health, March 28, 2024, https://www.thinkglobalhealth.org/article/chinas-emerging-welfare-crisis. See also Carl Minzner, "China's Long Twilight," Foreign Affairs, November/December 2026, published online October 5, 2026, https://www.foreignaffairs.com/china/chinas-long-twilight-carl-minzner.

[740] Peterson Institute for International Economics, China's state vs. private company tracker, July 30, 2026 (41% at mid-2026; 27 newcomers to the top 100, 26 of them upstream suppliers of chips, components, materials and equipment). Stanford Center on China's Economy and Institutions, "Reassessing the Role of State Ownership in China's Economy" (brief, updated January 15, 2024), from Franklin Allen, Jun Qian, Jeff Cai et al., "Centralization or Decentralization? Evolution of State-Ownership in China" (SSRN, 2022): 363,000 firms wholly state-owned and 867,000 with some state ownership among 40 million; firms with some state ownership about 85% of the registered capital within the state-ownership network, which holds about 80% of all firms' capital, so about 68% of the whole, and the state's own capital about 31% of total capital at the end of 2017. The private share at mid-2026 was a recovery from the low of 33.5% in mid-2024.

[741] Peterson Institute for International Economics, China's state vs. private company tracker, update of July 30, 2026 (the rebound of private firms in the top 100).

2022, against a target of more than 17% by 2025. The crackdown and the reallocation read as one operation, accumulation redirected by plan.

What the allocation discipline demonstrates is the political subordination of capital. The property crackdown since the three red lines of August 2020, in which the property owners and their creditors have borne the losses, shows the party's capacity to subordinate a powerful private faction.[742] The Marxist economist Michael Roberts asks whether that power reaches accumulation across the whole economy: whether the law of value is being subordinated as the general regulator of investment, or whether the plan commands the strategic core while value still allocates the rest. The record does not yet show value displaced as the general regulator.[743]

Whether this institutional response is sufficient to prevent capture is the open question the next years will test. The property class stood in 2018 where this class stands now, the three red lines came two years later, and the largest developer defaulted the year after. The new productive-industrial billionaires, the founders of ByteDance, CATL and BYD and the AI fortunes at MiniMax and Zhipu, are the class in question. Beijing's defenders have to commit to the test.

The answer depends in part on whether party members and prospective recruits press the leadership to act. The pattern documented by Yinhao Zhang in "The Material Basis of a Spectre: Why China's Youth Are Rediscovering Mao" (Monthly Review, April 2026) is what would be expected if the pressure were forming.

At Tsinghua University, the Selected Works of Mao Zedong went from outside the top 50 library loans in 2016 to the number one position by 2019, a position held every year through 2024.[744] The pattern repeats at Peking, Fudan, and Shanghai Jiao Tong, the four most prestigious universities in the country and the source of the next generation of senior cadre, academic, and business leadership. Library borrowing, even of Volume V, the official

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[742] Ministry of Housing and Urban-Rural Development and People's Bank of China, meeting with developers, August 20, 2020 (the three red lines), as reported by Yicai Global, August 24, 2020, https://yicaiglobal.com/news/pboc-sets-new-funding-rules-as-property-developers-borrowing-soars.

[743] Michael Roberts, "China as a Transitional Economy to Socialism?," Journal of Global Faultlines 9, no. 2 (2022): 180–97.

[744] Yinhao Zhang, "The Material Basis of a Spectre: Why China's Youth Are Rediscovering Mao," Monthly Review 77, no. 11 (April 2026). A 2020 MyCOS survey found the pattern across the top 10 loan lists of 13 of 80 universities surveyed, weighted toward top-tier institutions. Beihang's 2020 list, posted on the university's official Douyin account, showed the Selected Works first and Volume V second. Volume V is the official fifth volume, published in 1977 and covering Mao's texts from September 1949 to November 1957, distinct from the later unofficial compilations that carry similar labels. It is reported to have been effectively withdrawn after 1978, and many university libraries are reported not to carry it.

compilation of Mao's texts from 1949 to 1957 and the most politically charged of them, is a signal of interest, not a count of organized political commitment.

The material basis is the contradiction between the post-1978 social contract's promise of mobility through education and the actual labor market the educated youth face. Youth unemployment hit a 21.3% official rate in June 2023; the government then suspended the release and redefined the series before resuming it.[745] The "involution" and lying-flat movements have named the condition in popular vocabulary. The class stratification documented in the red princeling scandals, over privileges enjoyed by the descendants of senior officials, has made the formation Mao called "bureaucratic capitalists" legible to the demographic that should have been its natural cadre.[746] The same generation that has experienced the failure of the market-era promise is also the most patriotic and anti-imperialist cohort since the reform era began. The two grievances are coupled: as Zhang frames it, the new domestic business elite is read as both exploitative and comprador, an elite whose interests are tied to foreign capital, aligned ideologically and sometimes economically with the Western interests Beijing is contesting at the geopolitical level. The struggle for social justice at home and the struggle for national sovereignty abroad are the same struggle in the same vocabulary.

This is the Chinese counterpart of the contest under way in the American core over which organizations will turn discontent into a program and into power: material conditions force consciousness on both sides. The doctrinal commitment to phase-two consolidation, the move toward deeper socialist consolidation, now has cadre-base pressure forming under it from the demographic that could be running the apparatus in 15 years.

Zhang describes a movement concentrated in the digital realm and lacking formal organization. The same students reading the Selected Works as revolutionary text are also reading it as a manual for office politics and individual advancement in the hypercompetitive labor market. The revolutionary content sits alongside the self-help reading and can be defanged by it. Zhang describes the current configuration as "a loose, sometimes confused mix of feelings rather than an organized movement."

The two ferments face parties with different relationships to Marxism. In the core the ferment's text is the enemy's text for both parties: the party leadership and about $65 million of outside money went against its Senate candidate in Michigan, Abdul El-Sayed, in the 2026 primary, and lost to him.[747] In China the ferment's text is the ruling party's own

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[745] National Bureau of Statistics of China, urban surveyed unemployment, ages 16 to 24, June 2023; the bureau suspended the series on August 15, 2023.

[746] Wang Xu, "Former Official Expelled from Party amidst Wealth Flaunting Scandal," China Daily, October 10, 2023, on the Beiji Nianyu affair; Yang Yuqi, Gu Liangnan, and Kelly Wang, "Beijing Hospital Scandal Sparks Debate about Pilot Medical Degree Program," Caixin Global, May 1, 2025, on the 4+4 medical track.

[747] Associated Press and NBC News, August 5, 2026 (El-Sayed 48.5% to Stevens 47.5 on August 4, against about $65 million of outside money and Whitmer's late-July endorsement), copy at https://michiganadvance.com/2026/08/05/michigans-democratic-

canon. Volume V is the party's compilation of the transition years, and the demographic reading it is the demographic the party recruits from: the cadre are taken from the universities where the loans are counted and run through the party school on the same texts. Since 2021 the readers have been answered in policy with what they wanted, the platform crackdown, the tutoring ban, the ruling against working from nine in the morning to nine at night, six days a week, common prosperity, the anti-involution campaign.

Earlier, the ferment's organizational expression outside the party's channels had already been policed, the Jasic affair of 2018 the case, when the Marxist student societies that organized with Shenzhen workers were suppressed. The party absorbs the doctrine, recruits the readers and answers demands in policy while forbidding independent organization. It is the trapped transition's risk, an apparatus renewing itself from a ferment it will not let stand on its own. It is also the proposed capacity for institutional renewal: a party that can turn the pressure into cadre selection where the core's parties can only fight it or be replaced by it. In 1966 Mao turned such a ferment against the party from below, and the damage broke the momentum toward a Soviet-style ossification at catastrophic cost; whether recruiting the readers can do that work without the damage is not yet shown.[748]

Measured against the consolidation I claim, the record as of October 2026 is uneven. The property and platform interventions show the state acting against powerful capitalist interests. The newer industrial fortunes have yet to face the treatment the property fortunes received. In the workplace case examined here, Jasic in 2018, the workers who organized were detained.

The Gotha Programme test

The CCP's legitimacy through this period has come from the explicit acknowledgment that the system is not yet at the higher phase Marx specified. The primary-stage formulation names the present as socialism's first stage. I read it as a transition still to be won; calling it socialist does not settle its status. The CCP maintains the doctrinal trajectory toward the higher phase while permitting the developmental work the transition requires. The Critique of the Gotha Programme passage, which Marx wrote in 1875, anticipates the structure in part. Marx specified that the lower phase of communism retains many features of capitalist society: distribution according to work performed, labor-time vouchers as proxy for currency, the state as transitional apparatus, forms of bourgeois right in distribution. Only in the higher phase, after the productive forces have developed

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u-s-senate-primary-too-close-to-call/ and https://www.nbcnews.com/politics/2026-election/abdul-el-sayed-wins-michigans-democratic-senate-primary-notching-midwe-rcna589750.

[748] The Jasic affair, August 2018 (the Peking University Marxist society and the Shenzhen workers); the Supreme People's Court ruling on the 996 schedule, August 2021; the tutoring regulations of July 2021; the common-prosperity turn of August 2021; the Michigan and Minnesota entries as cited in the articulation contest.

sufficiently and the antithesis between mental and physical labor has dissolved, does the principle "from each according to ability, to each according to needs" become operative.[749]

The framing is double-edged. Used carelessly, it can rationalize indefinite preservation of capitalist features under the heading "we're still in the lower phase." That is the failure mode Trotskyist and other left criticism correctly identifies. A transition must move toward the abolition of the capitalist relations it retains. If it preserves them indefinitely, it has ossified.

Between capitalist and communist society, Marx specified in the same text, lies the period of the revolutionary transformation of the one into the other, to which corresponds a political transition period whose state can be nothing but the revolutionary dictatorship of the proletariat. That is the transition. The lower phase of communism comes after it and presupposes the means of production already in common ownership, so that what survives of the old society is bourgeois right in distribution, the state reduced, in Lenin's reading of the same passage, to enforcing that right. Marx's phrase for a society "stamped with the birthmarks of the old society from whose womb it emerges" describes that lower phase, with value production already abolished; China's billionaires are birthmarks only in the looser sense used for Britain's crown and Lords. China stands in the transition, short of the lower phase. The transition is where Lenin located what he named state capitalism under the dictatorship of the proletariat: commodity production, private enterprise, foreign concessions, and a national bourgeoisie, all retained to build the productive base while the commanding heights are held and political power is closed to capital.[750]

Lenin called it a step forward toward socialism and marked it off from its Western namesake in one line, that the state in this case is represented by the proletariat and not the bourgeoisie. The objection that China still runs markets, private firms, and a bourgeoisie then applies lower-phase criteria to a transition formation, where commingled forms define the stage and are not evidence against it. The discriminator is the one Lenin drew and Deng restated as markets being tools: whether capital is barred from political decision-making, and whether the class that holds the heights and directs accumulation is the party of the proletariat or the bourgeoisie. Socialism, he wrote, is "merely state-capitalist monopoly which is made to serve the interests of the whole people." What decides is whom the monopoly serves, which can be tested through changes in households' material security and workers' power.[751] The surviving test is still trajectory, now specified

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[749] Marx, Karl. Critique of the Gotha Programme. 1875. Moscow: Progress Publishers, 1971. https://www.marxists.org/archive/marx/works/1875/gotha/index.htm Part I.

[750] Marx, Karl. Critique of the Gotha Programme. 1875. Moscow: Progress Publishers, 1971. https://www.marxists.org/archive/marx/works/1875/gotha/index.htm Parts I and IV.

[751] Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 11, 360 to 364: "Either in the interest of the landowners and capitalists, in which case we have not a revolutionary-democratic, but a reactionary-bureaucratic state, an imperialist republic. Or in the interest of revolutionary democracy, and then it is a step towards socialism." State-monopoly capitalism is "a complete material preparation for

as a transition moving toward the lower phase instead of the internal motion of a lower phase already reached.

One inversion is an open question beside the test: whether planning institutions can be made answerable to workers, and whether reform led from inside the party could achieve that. Preobrazhensky's test, which sector accumulates and at whose expense, read forward, suggests two live routes to democratic planning beyond state capitalism: a ruptural socialism in the imperial core, and a China that takes the turn Yuri Andropov began in the Soviet Union in the early 1980s, a disciplinarian's reform from inside the party. Either would make the present a transition of the kind Lenin described with the New Economic Policy, markets and private trade retained under a state that held the commanding heights, on a horizon measured in decades, not years, and at global, not national, scale.

The successor points the machines of surveillance in a different direction from the incumbent's, and the difference is what the Preobrazhensky test should read. Its anti-graft pilot, Zero Trust, cross-referenced bank, property and construction records against the declared lives of officials across some 30 counties and cities and flagged 8,721 of them from 2012, until the officials it watched refused it their data and shut it down in most places, as reported in early 2019. The party's discipline commission made a separate, national digital supervision system the center of its 2026 program, and the reports do not show whether it revives the pilot's cross-checking of officials' records. Pointed upward at the cadre and at the flows capital must report, the machine lets the state see what it intends to direct. Pointed by the cadre at the worker, it is the guard's work automated, and the rollback shows the apparatus defending itself as a stratum does. The test has to read both, whether the supervision runs from above alone or is opened to the people it serves, which is the difference between discipline and democratic planning.[752]

Lenin's pamphlet of 1917 gives the measures by which to read both states. He asked for the banks united under the state, the great syndicates taken over, commercial secrecy abolished, the employers compelled into associations, and over all of it accounting and control by the organizations of the workers. The successor has most of the forms. Its largest banks are the state's, firms with some state ownership held about two thirds of all registered capital in 2017,[753] its tax system now reads invoices, bank flows and payrolls together, its platforms carry special state shares and its firms party committees, and its machines are pointed at its own officials. What it lacks is the last term: the books are open

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socialism, the threshold of socialism".

[752] South China Morning Post, February 4, 2019 (Zero Trust: 8,721 officials since 2012, https://www.scmp.com/news/china/science/article/2184857/chinas-corruption-busting-ai-system-zero-trust-being-turned-being; about 30 counties and cities; officials' refusal to supply data; the discipline commission in Ningxiang among the few still using it); China Daily, January 16, 2026 (the fifth plenary of the 20th Central Commission for Discipline Inspection: a digital disciplinary inspection and supervision system, big-data resource centers, public power supervision platforms); the fourth phase of the Golden Tax system (fully digital invoices; tax, banking, commercial and social-security data integrated); Seva Gunitsky and Bruce Schneier, Foreign Affairs, October 1, 2026.

to the state and its discipline commission, and not to the workers' organizations Lenin meant to do the reading.

Lenin's own last design is the measure for that term. In January 1923 he proposed that the party congress elect 75 to 100 workers and peasants to the Central Control Commission, screened as members of the Central Committee were, and that no one's authority, the General Secretary's included, stop them from putting questions and verifying documents. China's arrangement since 2018 joins the party's discipline commission and the state's National Supervisory Commission in shared offices and staff. The comparison does not claim descent. It turns on three questions: who selects the supervisors, whose interests they represent, and whether they can investigate the highest authority.[754]

The incumbent runs the measures in reverse. Its banks are private and rescued. Its stakes in Intel and US Steel serve the firms that receive them, and the subsidy it gave Micron restrained its buybacks for two years and no longer. Its builders move their spending off the lines the market reads, and its machines are pointed down, at migrants and at the guards' own capacity to refuse, which is his reverse control in practice, the worker's life an open book and the capitalist's accounts a secret. By his criterion, the question of whom the successor's forms serve waits on the opening of the books.[755]

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[753] Stanford Center on China's Economy and Institutions. "Reassessing the Role of State Ownership in China's Economy." Brief, updated January 15, 2024. From Franklin Allen, Jun Qian, Jeff Cai, et al., "Centralization or Decentralization? Evolution of State-Ownership in China," SSRN working paper, 2022. The brief reports 68% of registered capital in 2017 in firms with some state ownership; this is not the state's direct ownership share, which it reports as 31%.

[754] Lenin, "How We Should Reorganise the Workers' and Peasants' Inspection" (January 23, 1923; Pravda, January 25), Collected Works, vol. 33, 481–86, https://www.marxists.org/archive/lenin/works/1923/jan/23.htm (the bracketed name in the archive's text is editorial); Xinhua, October 30, 2018, https://english.www.gov.cn/policies/latest_releases/2018/10/30/content_281476368497182.htm, on the National Supervisory Commission sharing offices and staff with the discipline commission; China Daily, March 23, 2018, https://global.chinadaily.com.cn/a/201803/23/WS5ab4d311a3105cdcf6513ed0.html, on the commission's inauguration after the Supervision Law of March 20, 2018.

[755] Lenin, "The Impending Catastrophe and How to Combat It" (1917), chapters 3 to 7, 10 and 11; Allen and others, Stanford Center on China's Economy and Institutions (January 2024), on state ownership of registered capital; the fourth phase of the Golden Tax system; the state's special management shares in ByteDance's main Chinese entity and Weibo (2021) and party organizations in private firms; the federal stake in Intel (August 2025) and the golden share in US Steel (June 2025); the CHIPS Act award to Micron ($6.1 billion) and its buyback restriction to December 9, 2026, as reported; Microsoft's reclassification of July 2026.

The workers'-state question

The Trotskyist critique of the Bolshevik experience raises the sharpest objection. Actually existing socialist states have suppressed workers and workers' movements: the 1921 rebellion of the sailors at the Kronstadt naval base, crushed by the Soviet government; the 1989 Tiananmen protest movement, which workers joined, and the crackdown that ended it; Poland's Solidarity trade-union movement, suppressed under martial law from 1981. If a workers' state suppresses workers, the argument runs, how can it meaningfully be a workers' state?[756]

Engels answered the anti-authoritarians in 1872. Complex production requires authority: a railway and a factory both need decisions that bind the people working in them. And a revolution, he wrote, "is certainly the most authoritarian thing there is; it is the act whereby one part of the population imposes its will upon the other part by means of rifles, bayonets and cannon." Lenin added that the apparatus of suppression should grow simpler over time, until the armed people perform it themselves. That did not happen in the Soviet Union before its dissolution.[757][758]

The bare fact that a workers' state can suppress workers' movements does not by itself answer the question. Counter-revolution can wear and has worn workers' clothing. Trade union consciousness and class conflict, and the intermingling of the two with a Communist Party, exist even after a revolution. The same principle that the Trotskyist tradition applies to its critiques of existing Communist Parties should apply equally to its readings of other movements that have appeared as workers' movements.

Engels's argument legitimates authority in general and no particular use of it. Authority that defends a revolution against counter-revolution is justified. Authority that defends bureaucratic privilege against workers trying to deepen the revolution may not be. The criterion this work takes from him is that authority is justified by what it accomplishes and whose interests it serves. Plekhanov set the condition in 1883: the conscious participation of the producers in organizing production cannot be replaced by any skill or daring of those who would organize it for them, and production managed by a caste would be a patriarchal and authoritarian communism under which the people would lose the capacity for further progress. The successor is the first formation to break through with much of the base

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[756] Paul Avrich, Kronstadt 1921 (Princeton University Press, 1970); Andrew G. Walder and Gong Xiaoxia, "Workers in the Tiananmen Protests" (1993); Ash, Timothy Garton. The Polish Revolution: Solidarity. London: Jonathan Cape, 1983.

[757] Lenin, V. I. The State and Revolution. 1917. In Collected Works, vol. 25, 385–497. Moscow: Progress Publishers, 1964. https://www.marxists.org/archive/lenin/works/1917/staterev/index.htm Chapter 3.

[758] Engels, Friedrich. "On Authority." 1872. In The Marx-Engels Reader, edited by Robert C. Tucker, 2nd ed., 730–33. New York: W. W. Norton, 1978. Free online text: https://www.marxists.org/archive/marx/works/1872/10/authority.htm

already built. Whether its organization of production is opened to the producers or kept by the caste he warned of is the question at issue.[759]

Distinguishing the cases requires analysis, not categorical fiat. Take Kronstadt 1921. The Bolshevik defense holds that the rebellion was driven by counter-revolutionary Whites with peasant support, that it threatened the survival of the revolution at a moment of extreme weakness, and that suppression was a tragic necessity. Trotsky himself defended the suppression for the rest of his life, even after he had become the most prominent critic of Stalinist repressive tactics that were explicitly built on the example of Kronstadt. The anarchist and council-communist counter-position holds that Kronstadt was a workers' rebellion against Bolshevik bureaucratic-centralizer deformations, that the suppression was the beginning of the regime's degeneration, that the organic soviets, the organs of workers' democracy, were already being absorbed and crushed into the party-state apparatus. Both positions have evidence. The disagreement is partly about what counter-revolution looks like when its forms include workers acting against the workers' state.[760]

Take Tiananmen 1989. The CCP defense holds that the protest movement was being captured by capitalist-restorationist forces, that workers' movement elements were a minority, that the suppression preserved the revolution against a deeper counter-revolutionary moment that would have ended the project's continuity. The opposition position holds that the protests included substantial workers' movement content (the autonomous workers' federation), that the suppression was the bureaucracy defending its accumulating privilege against pressure for democratic deepening, that the CCP's subsequent rightward drift in some dimensions confirms this reading.[761] Both positions have evidence.

The record supports a mixed verdict: suppression of workers' movements by workers' states is sometimes a necessary defense of revolution, sometimes betrayal of revolution by bureaucracy, and sometimes both at once. A revolutionary state can suppress a workers' movement in self-defense and in service of bureaucratic privilege at the same time. The analysis required to disentangle these is harder than declaring categorically that all suppression is betrayal or all suppression is necessary, and Tiananmen admits no one-sentence verdict.

The demand for council government as the test of socialism assumes that workers' democracy must take one form. The questions that matter are who exercises authority, to whom they answer, and whether workers keep the means to act politically over time. A

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[759] G. V. Plekhanov, Socialism and the Political Struggle (1883), chapter III.

[760] Paul Avrich, Kronstadt 1921 (1970), on the sailors' demands, Bolshevik responses and suppression.

[761] Walder, Andrew G., and Gong Xiaoxia. "Workers in the Tiananmen Protests: The Politics of the Beijing Workers' Autonomous Federation." Australian Journal of Chinese Affairs 29 (1993): 1–29. Andrew G. Walder, "Workers, Managers and the State: The Reform Era and the Political Crisis of 1989," China Quarterly 127 (1991): 467–492, https://doi.org/10.1017/S0305741000031039.

council can ossify too. And the pure council form has never survived as a sovereign state for more than a few months to a few years against sustained military and economic pressure, so a test that requires it rules out every workers' state that has existed.

The strongest version of the democracy objection comes from a sympathetic critic. Laibman accepts that China is an early socialism. He still treats democracy as the deciding question, and his argument runs in three steps. Capitalism came to China from outside, so labor power never fully became a commodity sold by workers who also act for themselves in politics. As a result, China's socialist revolution came before the democratic breakthrough that came first elsewhere. Mature socialism, he concludes, requires democratic planning at many levels, and that requires political change the party has not made. I accept his description and dispute his order of necessity. The revolution had to create the working class his sequence assumes. And in the core, the formal democracy he wants first is the system in which capital overrules elected governments by threatening to leave.[762]

The classic texts ask who democracy is for, and they answer differently. In 1917 Lenin wrote that the dictatorship of the proletariat means democracy for the great majority and the exclusion of the exploiters from it. The Soviet constitution of 1918 took the vote from anyone who hired labor for profit, and a few months later Lenin told Kautsky that this was a Russian measure the dictatorship did not require everywhere. In 1949 Mao drew the line in a third place: the workers, the peasants, the small proprietors of the towns and the domestic business owners counted as the people, and the dictatorship applied to the landlords and to the great fortunes fused with the Kuomintang state. Each time the line moved with the balance of forces. China's present answer is eight small parties that sit in a consultative body under the Communist Party's leadership and do not compete for power.[763]

The second question is how much democracy, and here the texts raise more questions than they settle. Engels argued that a railway runs on a timetable someone must set, and expected the government of persons to give way to the administration of things. The Commune left the best institutional model the founders described: officials elected, recallable at short notice and paid a worker's wage. It governed one city for seventy-two days. The texts define whose democracy it is and give one example of its form. They do not say how much is enough.[764]

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[762] Laibman, "China: In the Perspective of Historical Materialism," 171–203. For the responses it drew, see the symposium "Historical Materialism and China Today," Science & Society 85, no. 3 (2021): 385–411, with contributions by Ying Chen, Barbara Foley and Zhun Xu and a reply by Laibman.

[763] Lenin, The State and Revolution (1917), chapter 5. Constitution of the Russian Socialist Federative Soviet Republic, July 10, 1918, article 65. Lenin, The Proletarian Revolution and the Renegade Kautsky (1918), chapter "The Soviet Constitution." Mao Zedong, "On the People's Democratic Dictatorship" (June 30, 1949). Constitution of the People's Republic of China, preamble, as amended in 1993.

A plan for wheat shows where the line between administering things and governing people falls. Some of its decisions are mainly technical, such as seed rates and crop rotation, and agronomy sets the range of sound choices. Even there, resting a field forgoes an immediate grain crop, and who bears that cost is a political question. Other decisions turn on what the plan puts first, whether food security, export earnings or growers' incomes. They include how much land goes to grain and how much to cotton, what growers are paid, and who eats first in a bad year. Specialists must work out the feasible choices and their consequences. The political question is who sets the plan's priorities and who can challenge the plan that results. In the Soviet grain crises of the late 1920s the peasants challenged it the only way open to them, by holding back grain to move the price, and Stalin answered with force.[765]

The first Soviet plans bought their tank works at that price, and the chapter before this one weighed the cost. China's escape from the choice had two sources. The bomb of 1964 widened its room to change course without ending its vulnerability. The Cultural Revolution changed the conditions at home: the assault on the party bureaucracy weakened the barriers to reform, and the catastrophe gave the leadership that followed strong reasons to change course. From 1978 the state returned farming to households that could sell above their quotas. The question is whether correction can become a lasting power of the people affected, without waiting for another upheaval.[766]

I propose a working test with two conditions. First, the people who bear a plan's political choices can contest them: they can get the reasons for a decision, challenge it, and win a remedy without being punished for the challenge. Second, administrators can be removed through bodies answerable to the people their decisions affect, not only by a superior or a rival faction. These two conditions are the safeguards against the two failure modes, ossification and capture. They are criteria, not a claim that China meets them.

The Chinese cases read against them. The Zero Trust system flagged thousands of officials and was shut down in most places by the officials it watched. No body answerable to the people they governed was able to keep it running, which bears on the second condition

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[764] Engels, "On Authority" (1872). Engels, Anti-Dühring (1878), part 3, chapter 2. Marx, The Civil War in France (1871), and Engels's introduction of 1891. Marx, Critique of the Gotha Programme (1875).

[765] R. W. Davies and Stephen G. Wheatcroft, The Years of Hunger: Soviet Agriculture, 1931–1933 (2004), on procurement and the approach to collectivization.

[766] Memorandum from Secretary of State William P. Rogers to President Nixon, "The Possibility of a Soviet Strike Against Chinese Nuclear Facilities," September 10, 1969, attached to Kissinger's memorandum to the president, Foreign Relations of the United States, 1969–1976, vol. XII, document 88, https://history.state.gov/historicaldocuments/frus1969-76v12/d88. Rogers judged a strike unlikely but could not rule it out. Walder, "Bending the Arc of Chinese History" (2016), 615–18 on the disruption of the bureaucracy and the suppression of the rebels, 620–21 on Deng's coalition and the rebuilding of the party, and 624–25 on the strengthened case for changing course.

without measuring it in full. Jasic, the 2018 labor-organizing case in Shenzhen, failed the first: workers who tried to form their own union were detained, along with the students who backed them. Laibman may be right that neither condition can hold without a political breakthrough the party has not made. The 2027 party congress will test only succession at the top; workplace cases like Jasic read the rest.[767]

The state-capitalism question

The dominant relation is being tested at the transition stage Lenin specified, where state capitalism under proletarian power is the expected form. Braudel's sentence, which Arrighi made the hinge of his own book, is the one to invert: capitalism triumphs, in Braudel's words, "when it is the state." The claim here is that the Chinese state can subordinate private accumulation to the plan. Testing it requires examining who controls investment and whether the surplus strengthens collective provision or private owners' power.[768] The form is the weak link's inheritance: a state that had to make its own proletariat operated wage labor to make it, and a charge that reads the necessity as restoration rules out the revolution that produced the state. Against the related Trotskyist position that the USSR and by proxy China are state capitalism, the argument is more substantive. Tony Cliff's analysis specifically argued that Soviet state enterprises extracted surplus value, that the bureaucracy functioned as a collective capitalist allocating surplus, and that production was for accumulation through plan fulfillment, which functioned analogously to capital self-expansion.[769]

The Soviet case offers structural counter-arguments. Most output was for use within the planning system, with exchange subordinate to that allocation. Enterprises did not compete domestically as capitalist firms do, and capital accumulation as an automatic drive was mostly absent. Political-administrative decisions allocated the surplus instead of extracting it as profit through M-C-M'.[770]

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[767] Yinhao Zhang, "The Material Basis of a Spectre," Monthly Review 77, no. 11 (April 2026), on the Jasic movement and the suppression of its student supporters.

[768] Braudel, Afterthoughts on Material Civilization and Capitalism (1977), 64–5, as quoted in Arrighi, The Long Twentieth Century, 12.

[769] Cliff, Tony. State Capitalism in Russia. London: Pluto Press, 1974. First published 1948. Free online text: https://www.marxists.org/archive/cliff/works/1955/statecap/

[770] Cliff's fourth mark, an imperialism of the Soviet Union's own in Eastern Europe, fails Lenin's five (the concentration of production into monopolies, finance capital and its oligarchy, the export of capital, the international cartels, the completed territorial division): the Soviet Union had no finance capital and exported none, took the region with the Red Army in 1944 and 1945 as a security glacis and consolidated it as the Cold War closed, extracted reparations, dismantled plant and the mixed companies in the first years, and by the 1970s was subsidizing the bloc through underpriced oil and overpriced manufactures (Marrese and Vanous, Soviet Subsidization of Trade with Eastern Europe, 1983); plunder and subsidy are neither of them Lenin's imperialism.

The liberal version of the same objection is the economist Branko Milanovic's: a state capable of overriding private capital is an autonomous bureaucratic elite that uses markets to maximize national power and its own discretion, and its crackdowns, the Ant listing, the tutoring industry, the developers, are self-preservation against a rival power base instead of anything a class did. The answer is the direction of the surplus, whether the surplus expands collective provision and workers' power or entrenches bureaucratic privilege. In its crude form a bureaucratic elite that governs for itself loots the state to enrich its own and parks the proceeds abroad. The record of that formation is Suharto's Indonesia, Mobutu's Zaire, and Yeltsin's Russia, and its signature is the offshore account. The party-state closed the offshore exit in May and taxed the trusts in July, liquidated the largest private fortunes of the property era without socializing their losses, and put the state banks into unprofitable, long-horizon physical assets, the ultra-high-voltage grid, the terawatts, the fabs, the hulls, at returns no rent-seeking elite would accept. A looting elite does not do those things.[771]

Milanovic's elite might, since growth and national power are its only title to rule, and his bureaucracy disciplines fortunes while it tolerates the corruption it cannot end. What his model cannot do without is a private capitalist class left in place as the engine of that growth, and an inequality accepted as its price. A formation carrying a class into production can dispense with both, whatever its cadre think of themselves. The crackdowns do not settle the test; what the discipline leaves behind does: a private capitalist class still reproducing itself at the center of accumulation, which is Milanovic's China, or a class whose command over investment and the surplus has been taken from it. The strategic-industry class getting the treatment the property class got is the one move his elite cannot make without killing its engine, provided the treatment takes command over investment from the class as a class and does not hand it to a new private winner.

Household consumption as a share of GDP, the social wage, meaning the publicly provided services and benefits that reduce households' living costs, and the wealth Gini, a measure of how unequally wealth is distributed, bear on the question together, and none of them alone settles it. A richer household is what his elite rules by while the growth lasts, and capitalism itself has conceded the household a larger share whenever it had to, the 30 years after 1945 the longest such concession. What settles it is the concession that is not taken back when the return on capital falls, and who is left to take it back. Capital has taken its concessions back whenever the rate demanded it, the incumbent last and now, its top tenth carrying half the spending while the rate is defended. A formation whose private class no longer commands investment has no one who must take the concession back, only a plan that can choose arms or accumulation over the household instead. A household share and social wage cut back to protect arms or accumulation when the return on capital falls would be the outcomes that distinguish the readings, and they would count against this work's reading of China.[772]

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[771] Milanovic, Branko. Capitalism, Alone: The Future of the System That Rules the World. Cambridge, MA: Harvard University Press, 2019. https://www.hup.harvard.edu/books/9780674987593

What this work rejects as an overly broad definition is the stricter criterion that says any system with markets, money, state, or wage labor is capitalism. That criterion makes Lenin's transition into capitalism, which is anti-Marx on its own terms. Cliff's analysis did not operate that criterion, and his structural claim is debatable on its merits.

Beijing today operates structurally differently from Western capitalism in ways that produce different outputs and threaten the existing global ordering principle. The CCP's own answer to the Cliff position was articulated by Deng during the 1992 Southern Tour. "Capitalism may have markets, socialism may also have markets." Markets are tools, not modes of production. The mode of production is determined by the dominant social relation, by who owns the productive forces, by who directs accumulation, by which class exercises political authority over the strategic project.[773]

Cliff's position in its strongest form puts the competition outside: the arms race compels the state to accumulate as a single capitalist whatever its domestic markets do, so the question it puts to Beijing is whether the world market and the war economy set the pace of accumulation, whatever is deployed at home.[774] The answer this work gives is the household test: a state accumulating under the arms race's compulsion could not sustain the household's share against the return on capital when the two press against each other. Cliff's own criterion gives a second test beside it: whether labor power is priced against accumulation's needs or against the household's, which the record of hours, arrears, the labor share and the migrant's status will show.[775] The protocol difference, with state ownership of commanding heights, party political control, refusal to socialize losses to

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[772] Milanovic, Capitalism, Alone (2019); the CSRC and State Taxation Administration actions as cited above; the Hurun composition as cited in the encirclement section.

[773] Deng Xiaoping. "Excerpts from Talks Given in Wuchang, Shenzhen, Zhuhai and Shanghai, January 18–February 21, 1992." In Selected Works of Deng Xiaoping, vol. 3. Beijing: Foreign Languages Press, 1994. Free online text: https://www.marxists.org/reference/archive/deng-xiaoping/1992/179.htm

[774] Tony Cliff, State Capitalism in Russia (1955; 1974 edition), the chapters on the bureaucracy's relation to the means of production and on the arms race as the form of competition.

[775] The China-friendly Marxists do not agree with each other: Roberts (China as a Transitional Economy to Socialism, paper; and his IIPPE 2026 panel, September 16, 2026: neither capitalist nor socialist, and not now moving toward socialism as its leadership claims), Lauesen (IIPPE 2026: the transitional state's retained capacity, and an optimistic trajectory; no pure socialism as there was no pure bourgeois revolution, also in The Long Transition (2024), 21–22), Lo (IIPPE 2026: development compatible with convergence on capitalism or transcendence of it, the outcome on the interplay of state, capital and labour). This work argues that the trajectory since 2012 runs toward state control of the heights, while treating the class character of that control and labor's position as questions for the tests of China's class character.

private capitalists, and capacity to subordinate specific factions when their accumulation threatens the strategic project, is the empirical answer.

A libertarian looks at the present administration's equity stakes and state direction and calls it communism, and he is wrong for the whole criterion: the direction serves capital, secures bourgeois accumulation, enriches the family and the firms, so it is bourgeois despite the form. The reading cuts both ways. The orthodox critic cannot read bourgeois off the presence of markets any more than the libertarian reads communist off the presence of state ownership, and this work cannot read transitional off Beijing's discipline of capital, for the same reason. The form settles nothing on either side. What settles it is who the state serves and how, and who serves in the state, the composition of the cadre and how those served interact with those who serve. State direction is universal now. Nothing but the regulator question is left to decide it, which is where the discriminator and the tests stand.

The strongest contemporary state-capitalism argument asks whether production remains governed by the value form. Postone and Heinrich, the value-form theorists, read capitalism as impersonal domination by the value form and not as a fact about ownership: production is validated through exchange, the law of value passes the verdicts, and no owner, private or state, can refuse the verdicts without ceasing to accumulate. The question is then whether the value form governs reproduction in the PRC or is used as a tool under political control: whether its institutions must ultimately obey profitability and market exchange to keep production going, even when ownership is public. The record shows the value form used as a tool, which I call instrumentation.[776]

The law of value operates in bounded domains and is overridden at the commanding heights, where plan targets are denominated in use-values, grid capacity, housing floor space, fabrication nodes, hull tonnage, and met in use-values whether or not the exchange verdict approves. Strategic sectors run losses for decades without dying. Evergrande shows the limit of the verdict and the limit of the override. The value form passed a verdict of collapse on the largest developer in the system and the verdict was carried out on the firm, which was liquidated. What the state refused was the wider financial and production losses that an uncontrolled developer collapse could cause, and it set the order of the losses politically: the unfinished homes first, the offshore bondholder last. Capitalist states can contain failures while imposing losses on owners and creditors. In the March 2023 American bank interventions, depositors were protected and shareholders and certain unsecured debtholders were left unprotected.[777] In the Chinese case described here, the

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[776] Postone, Moishe. Time, Labor, and Social Domination: A Reinterpretation of Marx's Critical Theory. Cambridge: Cambridge University Press, 1993. https://www.cambridge.org/core/books/time-labor-and-social-domination/B2429FE0E1B401CC2F775DC2683C2025

[777] Board of Governors of the Federal Reserve System, U.S. Department of the Treasury and Federal Deposit Insurance Corporation, "Joint Statement by Treasury, Federal Reserve, and FDIC," March 12, 2023. https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312b.htm

state sought to preserve housing delivery and financial continuity while imposing losses on the developer and its creditors.

The intervention demonstrates the state's capacity to subordinate particular private claims. I judge its class direction through control of subsequent investment, the distribution of costs and gains, and workers' effective power. Those conditions determine what the override accomplishes. The criterion is falsifiable and should be written as such: the day the party cannot override a market verdict at the commanding heights without systemic collapse, the value form governs, the instrumentation has inverted, and the state-capitalism reading wins.

The Soviet restoration supplied a relatively concentrated record of institutional rupture: the property laws of 1991 and 1992, voucher privatizations and officials converting stewardship into private title.[778] China's course was different. Private ownership expanded through documented transfers, including the restructuring of state firms in the late 1990s, while the state retained the commanding heights.[779] The absence of a Soviet-style rupture therefore cannot settle whether capitalist relations gradually came to govern the whole. That requires a history of how the owners who gained title also gained, or failed to gain, power over investment and the state.

The reform-era transfers count against any account of uninterrupted socialist construction. Retained state control and later interventions against private capital count against treating that movement as irreversible. The dispute is whether the direction changed, how far it changed, and who can sustain the change. The construction reading must show that the turn since 2012 improves social provision and workers' power as well as state command of investment. The capitalist reading must explain the scope and durability of the state's ability to overrule private returns. Neither can settle the question by choosing a founding date. The record of control and distribution over time has to decide it.

The configuration has a limited image from the last time a revolution took the old order's instruments into its own hands. In December 1804 Napoleon took the crown from the altar and set it on his own head, then crowned his empress. The pope had anointed them but did not place the crown.[780] The WTO accession of 2001 would fit the same image: the party

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[778] Boycko, Maxim, Andrei Shleifer, and Robert W. Vishny. Privatizing Russia. Cambridge, MA: MIT Press, 1995.

[779] Ross Garnaut, Ligang Song and Yang Yao, "Impact and Significance of State-Owned Enterprise Restructuring in China," Stanford Center for International Development working paper 204, 2004 (about 40% of state firms privatized in 1996 to 2001, mostly to insiders, discounts on net assets in about 20% of surveyed cases), https://kingcenter.stanford.edu/sites/g/files/sbiybj16611/files/media/file/204wp_0_0.pdf.

[780] Fondation Napoléon. "The Day of Napoleon's Coronation: 11 Frimaire An XIII (2 December 1804)." https://www.napoleon.org/en/history-of-the-two-empires/timelines/the-day-of-napoleons-coronation-11-frimaire-an-xiii-2-december-1804/

entering the market's own cathedral, taking the regalia of exchanges, billionaires, and export rankings into its hands in front of the priesthood of the order it was joining, and never once conceding that the priesthood confers legitimacy, which the mandate had already conferred on itself. The bourgeois revolution universalized its content by betraying its form, the dynast outside the dynasties spreading the Code by conquest across a continent that had refused it. There the image stops, since nothing requires the successor's content to travel by conquest. The form-content split is the same question of who controls the instruments and whom they serve: whether the crown is carrying the Code or only the Empire.

On agency

The alternatives are stated as if the formation whose trajectory decides them were choosing. Marx's rule for that question is the one from the Eighteenth Brumaire: men make their own history, and not under circumstances of their own choosing. Beijing has a plan. We need to distinguish decisions that changed the course from plans that named what material conditions already required.[781]

The evidence for a forced hand is most of the record. The 2008 stimulus, 4 trillion yuan into infrastructure and productive capacity, was the response most consistent with the institutions and productive base Beijing had, as financial intermediation was for the incumbent. The property deflation from 2020 was a choice of timing over a fact: the sector had grown to a share of output no economy has sustained, and the three red lines, the borrowing limits imposed on property developers in 2020, decided when it would stop and not whether. Involution, the intensified competition and price cutting that bring no commensurate gain, is the base absorbing what a core that cannot buy no longer takes, and so are the GDP deflator, the economy-wide price measure, falling for nine quarters, the export surplus above a trillion dollars and the anti-involution campaign. The yuan bridge was built by the freezing of a sovereign's reserves in February 2022, a necessity for every state that could imagine being next. The phosphate and rare-earth controls were built by the tariff war. The challenger's spring leaves it little freedom, because the challenger must produce to exist and cannot yet finance, and every successor in the arc was carried into its position by what the incumbent's autumn did before it chose anything.[782]

The evidence for agency is the refusals, because a refusal is the only act a constrained formation performs that the constraint did not require. Beijing refused to rescue the developers or their creditors when the incumbent's precedent was to rescue both. It slowed its recycling into the incumbent's debt after 2008 and let its reported holdings fall after 2013, when the recycling was the price of the export market. It refused the platform-capital path at the Ant listing and the Didi filing, when that path was the one the incumbent's own base had taken. It refused the Wilhelmine path the incumbent's planners

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[781] Marx, Karl. The Eighteenth Brumaire of Louis Bonaparte. 1852. https://www.marxists.org/archive/marx/works/1852/18th-brumaire/ch01.htm Chapter 1.

[782] State Council of the People's Republic of China, November 2008.

have been inviting since 2017. It refused the rare-earth embargo the war invited and priced the licenses instead. It has refused the reserve role on the incumbent's terms. Xi's program for a financial power names a currency with global reserve status among its six aims and sets beside it a capital account opened only under control, an infrastructure under the state's own control and finance held to the service of production.[783] Its central bank's governor proposed in 2009 that the world's reserve be a basket no nation issues, and what it lays abroad is a payment rail.[784] The role as the incumbent held it came with the deficits and the financial expansion that hollowed it. What Beijing has refused is that path, and whether the role can be held without it is untested.[785]

One more refusal is often claimed and holds only in part. It ran no consumer-credit boom of the kind the incumbent's households ran before 2008. It did let the household borrow for the apartment, and household debt went from under a fifth of output in 2008 to over three-fifths by 2024, which is the property expansion seen from the buyer's side.[786]

The incumbent's counterpart to these refusals lies a decade before 2008. In the 1990s, Washington could have kept the base and chose to ship it, and by 2008 finance was the one response the hollowed base allowed. Agency is measured by what a formation refuses when refusal costs it. By that measure Beijing has it in the sequence: which crisis to take first and which to defer, the property sector before the platforms, the platforms before the war. It has it also in patience, which could, on Cory Doctorow's proposal, buy the chips at 10 cents on the dollar when the companies that bought them are bankrupt.[787]

What Beijing does not have is the direction. The direction is the base's, and the successor's test of agency arrives only when it becomes the incumbent: whether a formation that was carried into production can refuse its own autumn when the autumn is offered. No successor in the arc has passed it, and it waits on an autumn the successor does not yet

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[783] Xi Jinping, "走好中国特色金融发展之路，建设金融强国," Qiushi, no. 3 (2026), published January 31, 2026, from remarks of January 2024: the first of six elements of a financial power is a strong currency, widely used in international trade, investment and the foreign-exchange market and holding the status of a global reserve currency, beside a financial infrastructure that is independent and controllable. https://cpc.people.com.cn/n1/2026/0131/c64094-40656971.html.

[784] Zhou Xiaochuan, "Reform the International Monetary System," People's Bank of China, March 23, 2009, on the Triffin dilemma and a reserve built on the SDR. https://www.bis.org/review/r090402c.pdf.

[785] Bordo and McCauley, "Triffin: Dilemma or Myth?" BIS Working Paper 684 (2017), against the reading that a reserve role requires the issuer to run current-account deficits.

[786] CEIC, on People's Bank of China and National Bureau of Statistics data: 17.6% of GDP in December 2008 and 62.3% in March 2024; BIS total credit statistics, 62.1% for 2023.

[787] Doctorow, interview by Isaac Pound, The Tech Report, Times Radio, September 10, 2026: a national AI strategy should begin by doing nothing until the chips can be bought at ten cents on the dollar in bankruptcy.

have, outside this work's window. Its near-term test is whether the state can still override a market verdict at the commanding heights without provoking systemic collapse. The migration is underway and unfinished: the successor still sells for money, pays wages, and borrows on the world's markets. The claim is that the commanding heights run on the other law while the base stays entangled in the world market, and the claims about control, distribution and durability remain propositions to be tested.

Put to China, the question asked of each American organ gets two answers. The state has destroyed claims on purpose and stood: the developers, their offshore creditors, the valuations of the platforms. It has also extended claims as the incumbent does, 44 trillion yuan in the financing vehicles, swapped and rolled, and it has ended runs by order where a market would have cleared them. What separates the two cases so far is who holds the claims and who was made to lose. What would separate them for good is where the surplus goes afterwards, and the record does not yet show it.

The household share, the wider claim about the successor and labor relations are tracked separately. A gain in one does not settle the others.[788]

This judgment is wrong if capital comes to leave China freely, private fortunes become hereditary and politically protected, and the household's share of output stays where it has been.

XXVII. The Falling Rate in Shenzhen

The tendency of the rate of profit to fall, which Marx called a law and this work applied to the AI build-out, does not stop at the Pacific. China is a commodity producer under competition, and on that theory the rate of profit falls in Shenzhen by the same arithmetic as in Santa Clara: more constant capital against less variable capital, the price pulled to the new value as each advantage generalizes, the margin gone once everyone has the machine. Beijing's name for the condition is involution, and the law has to be run against Beijing as strictly as it was run against Washington, because no formation escapes it. The test of a successor is what happens when the law arrives.

It has arrived: overproduction, price wars, and the longest stretch of deflation since the 1990s. The GDP deflator fell for nine consecutive quarters, from the second quarter of 2023 to the second quarter of 2025. Auto-sector profits fell 33% between 2017 and 2024 while

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[788] Dic Lo, "Consideration on Historical Socialism and China", IIPPE 2026, conference slides (development as the necessary condition of socialism and not its measure; catching up able to converge on developed capitalism as easily as transcend it; the intent as the progressive liberation of labour from alienation, workers' control over the labour process and the progressive shortening of alienated working time, on which the actual situation has shown twists and turns); Torkil Lauesen, "Why China Is Not Capitalist?", IIPPE 2026 (the transitional state's retained political capacity), capacity and direction as separate propositions.

sales rose 21%, and the whole industry's margin on revenue hit a record low in 2024.[789] These are margins on revenue and price indexes, consistent with a falling rate of profit without measuring profit against the capital advanced. Each is the pressure of cheaper technology on the returns incumbent producers expected. The flood that destroys the incumbent's rent destroys the challenger's margin at the same time, because it is one flood, and the moral depreciation that strands Washington's constant capital is Beijing's own falling rate seen from the flooder's side. A country that gives away the weights and sells the panel below the incumbent's cost has no rent of its own to collect on either.

What differs is what validates the constant capital, and who holds the claims. In the American case the constant capital is validated by profit through private claims, and when validation fails the claims are destroyed and the household's deferred wages are the collateral. In the Chinese case the claims sit substantially with the state: the banks, the local financing vehicles, the state enterprises, and a party that let private developers fail without socializing their losses. A formation that holds its own claims can keep productive assets operating by refinancing their debts, accepting the losses or recapitalizing the institutions that hold them, for as long as the physical surplus is produced and distributed. Those choices still redistribute real resources and losses, even when they avoid an immediate run by private creditors.

Preobrazhensky's question is which sector accumulates at whose expense. This work adds a question about control: whether profit governs investment or is subordinated to other priorities, which is to ask what the socialized sector needs in order to grow. A state can keep a railway, factory or service operating for the output it provides even when its financial return falls below a private investor's requirement. It must still obtain labor, materials and energy, and decide who bears any financial loss. The difference is whether a poor private return can overrule that allocation of resources.

The difference is only live if the output either meets needs through domestic allocation or finds buyers able to pay for it, and war, sanctions and trade restrictions have disrupted some of the markets and routes through which it could be sold. China's surplus realizes through three channels: the core's consumption, the periphery financed by Chinese credit, and its own households. The first channel is the core: the indebted American household, kept on credit until it is not, and a Europe short of energy and fertilizer. Tariffs now fall on the goods that used to be cheap, and Beijing has itself cancelled photovoltaic export rebates and pursued price undertakings for EV exports, a strategy the commentator Fred Gao

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[789] National Bureau of Statistics of China (the GDP deflator); China Association of Automobile Manufacturers (auto-sector profits and sales). The auto margin is profit against revenue for the whole industry, electric and conventional, as reported for the China Passenger Car Association by its secretary-general Cui Dongshu: 4.4% for January to November 2025, the second lowest on record after 4.3% in 2024, against 7.8% in 2017 (CarNewsChina, December 27, 2025, https://carnewschina.com/2025/12/27/profit-margin-of-chinas-auto-industry-was-4-4-2000-usd-per-vehicle-second-lowest-in-history-jan-to-nov-2025/). Some 400 EV producers have gone since 2018, and some 50 more were expected to cut back in 2026. Producer prices were negative from late 2022 into early 2026 and turned positive in March only with the war's oil price.

describes as treating internal ailments through external means,[790] compelling exporters toward higher-margin models because the volume game has closed. The second channel is the yuan bridge, and the war lands hardest exactly where the bridge leads: Pakistan's grid, Egypt's wheat, Ethiopia's nitrogen. China can sell into that periphery only by financing the buyer, which is vendor financing at state scale, the shunt again, with a state owner and state-held claims.

The one thing the periphery buys with its own dollars is the panel that cuts its dollar bill. Pakistan has taken more than 30 GW of Chinese panels since 2019, measured as rated capacity, against a 35 GW grid, paid for in reserves it could not spare, to stop paying for gas it could not afford. The comparison is of ratings: panels produce only in daylight, so they cannot stand in for capacity the grid can call on at any hour. In February 2026 Pakistan closed net metering to new connections, the arrangement that credited owners for the electricity they sent back to the grid, to protect the capacity charges its grid still owes the fossil plants under contracts that pay whether or not the plants run.[791]

Sales into the periphery on credit are stable exactly as long as the credit bridge, and the bridge under the present configuration is dollar-denominated. What converts this from refutation into test is a shift toward financing trade in yuan as well as settling it. China has expanded yuan settlement: more than half of its cross-border receipts and payments were in renminbi in the first half of 2026. Whether yuan lending is replacing dollar finance for these buyers remains unmeasured here.

The third channel is domestic, and it is the number the critics hold up. The evidence on it as of 2026 is mixed. Household consumption remains around two fifths of GDP, two decades after the 2006–10 Five-Year Plan made economic rebalancing a policy objective.[792] The

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[790] China, Ministry of Finance and State Taxation Administration. Announcement No. 2 of 2026 on adjusting export tax rebate policies for photovoltaic and other products, January 8, 2026, published January 9. https://szs.mof.gov.cn/zhengcefabu/202601/t20260109_3981637.htm ; Gao, Fred. "China's 2026 'Anti-Involution' Campaign Has a Target List." Inside China, January 15, 2026. https://www.fredgao.com/p/chinas-2026-antiinvolution-campaign

[791] Renewables First, The Great Solar Rush in Pakistan (2024) and Solar Rush in Pakistan: What's Next (2026): 7.3 million solarized households in 2025; pv-magazine, January 2026, cumulative capacity above 27 GW; Pakistan Bureau of Statistics, HIES 2024–25: 78% of households lit by the grid, 11% by grid and solar, 7% by solar alone; NEPRA, Prosumer Regulations 2026, February 2026, net billing for new connections.

[792] World Bank. World Development Indicators, "Households and NPISHs final consumption expenditure (% of GDP)," China, series NE.CON.PRVT.ZS. https://data.worldbank.org/indicator/NE.CON.PRVT.ZS?locations=CN ; Bernanke, Ben S. "The Chinese Economy: Progress and Challenges." Speech at the Chinese Academy of Social Sciences, Beijing, December 15, 2006. https://www.federalreserve.gov/newsevents/speech/bernanke20061215a.htm The national-accounts series is household and nonprofit-institution consumption, not all

share answers the distribution question. It does not by itself test Lauesen's claim that China can replace exports by expanding its internal market through planning.[793] That test asks whether domestic demand of every kind absorbs the production displaced from export markets, on what timescale, and with what effect on employment, inventories and household welfare. The 20th Party Congress called in 2022 for labor's share of income to rise.[794] A transition toward the lower phase would have to show that workers were receiving more of what they produced, rather than rely on institutions inherited from the past. Per-capita disposable income and GDP each grew 5.0% in real terms in 2025, income keeping pace with output, which says nothing about the household share either way.[795]

Most damaging to the claim that China is subordinating capital and raising the social wage, Li Shi, dean of the Institute for Common Prosperity and Development at Zhejiang University, in the province designated to demonstrate Common Prosperity, presented research in 2026 on China's wealth Gini coefficient, a measure of how unequally wealth is distributed. It rose from 0.45 in 1995 to above 0.7 by 2023.[796] The rise is the strongest single argument for trapped-transition, because the productive achievement has not yet reached the household on the scale the thesis requires. The wealth Gini measures accumulated assets, separate from the income Gini the 14th Five-Year Plan targets. The

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domestic demand; Bernanke describes the plan's external rebalancing objective and measures to expand consumption.

[793] Lauesen, The Long Transition, 329.

[794] Xi Jinping. Report to the 20th National Congress of the Communist Party of China, October 16, 2022. Full English text published October 26, 2022, section IX.1. https://english.court.gov.cn/2022-10/26/c_824652.htm

[795] National Bureau of Statistics of China. "Households' Income and Consumption Expenditure in 2025." January 20, 2026. https://www.stats.gov.cn/english/PressRelease/202601/t20260120_1962356.html. National Bureau of Statistics of China. "Preliminary Accounting Results of GDP for the Fourth Quarter and Full Year of 2025." January 21, 2026. https://www.stats.gov.cn/english/PressRelease/202601/t20260121_1962363.html.

[796] Li Shi, "Investing in People Is Key to Common Prosperity," speech at Peking University's National School of Development, March 29, 2026 (English translation, Pekingnology, May 15, 2026, https://www.pekingnology.com/p/common-prosperity-without-illusions), made public in late April, as reported by He Huifeng, "China's 'Common Prosperity' Push Faces Reality Check as Inequality Rises: Study," South China Morning Post, May 4, 2026: the wealth Gini coefficient from 0.45 in 1995 to above 0.7 in 2023, https://www.scmp.com/economy/china-economy/article/3352248/chinas-common-prosperity-push-faces-reality-check-inequality-rises-study. The wealth Gini measures how concentrated accumulated assets are, on a scale from zero, perfect equality, to one, all wealth in a single holder. Whether the 14th Five-Year Plan's stated target of narrowing gaps between individual incomes by 2025 was met is a question for an income series, the official income Gini over the plan years 2021 to 2025.

Zhejiang demonstration zone's Action Plan concentrated on raising low and middle incomes and omitted intervention in high incomes. An official interviewed by researchers explained that restraint as a way to avoid market panic and the departure of wealthy people, which measures how seriously the redistribution component is being pursued.[797] Whether the achievement reaches the household has to be assessed together with who controls investment and how durable the concessions are.

These data points are real stress points, short of a structural failure of the project. Production dominance rests on more than Chinese household consumption, and this work still cannot take the escape route usually taken here, global electrification demand as an independent variable, because its own account of the core's failing demand has demolished that independence. Apply the same demand test at world scale: China is the world economy's Department I, and production becomes revenue only when a buyer can pay.

The economists Michael Pettis and Matthew Klein put the objection in its sharpest form: an economy in which households consume about 39% of output, and which invests at diminishing returns, has a surplus product it must place abroad.[798] If the core closes its borders, Europe rations and the periphery is short of dollars, no owner of the losses can prevent a debt deflation at home. Two answers, one on each side of the bridge. On the home side, the saving that suppresses consumption is partly precautionary: households save against the expected costs of illness, old age and housing that the state does not yet pay for. Precaution explains only part of the low consumption share, since households also receive a low share of national income and firms and government do much of the country's saving.[799]

The campaigns of 2025 and 2026 are the beginning of the state paying for illness, old age and housing.[800] The childcare subsidy of July 2025 pays 3,600 yuan a year for every child

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[797] Yu, Jianxing, Jianan Ge, Yueqian Xu, and Biao Huang. "Debating China's Common Prosperity with Evidence from Policy Practice." Journal of Chinese Governance 10, no. 4 (2025): 511–531. https://doi.org/10.1080/23812346.2025.2484881. See 524 and note 50 for the policy comparison and interview.

[798] Michael Pettis and Matthew C. Klein, Trade Wars Are Class Wars (2020); National Bureau of Statistics of China, household consumption series; IMF, People's Republic of China: 2024 Article IV Consultation, paragraph 4 (the household saving ratio high "as upgrades to the social safety net have been modest"), https://www.imf.org/-/media/files/publications/cr/2024/english/1chnea2024003-print-pdf.pdf. World Bank, World Development Indicators, household final consumption expenditure for China, 39.6% of GDP in 2023 and 40.0% in 2024 (last updated July 13, 2026), https://api.worldbank.org/v2/country/CHN/indicator/NE.CON.PRVT.ZS?format=json&date=2015:2025.

[799] Pettis and Klein, Trade Wars Are Class Wars (2020); the NBS consumption and saving series.

[800] The Implementation Plan for the Childcare Subsidy System, CPC General Office and State Council, July 28, 2025; the State Council special action plan on consumption, March 16,

under three, the first universal cash payment the state has made since 1949 on the health commission's own description, with 90 billion yuan budgeted for its first year and 20 million families in it.[801] The consumption plan of March 2025 raised pensions, and the 2025 central budget put 67 billion yuan into employment subsidies.[802] The sums are small against the gap. The two announced budget allocations, for childcare and employment, together come to 157 billion yuan, about a ninth of one point of output, where one point of the consumption share is 1.4 trillion.[803] They establish a direction and an instrument at a scale that cannot yet move the number.

The urbanization plan of 2024 directs cities with urban populations under 3 million to remove the settlement restrictions of the *hukou,* the household-registration system that ties many public services to a registered residence, and calls for the migrant working class to receive public services where it lives.[804] Carried out, it would begin to end the arrangement that financed accumulation from 1978: a class working in the city without the city's social wage. How far cities have removed the restrictions, and which benefits have become portable in practice, the plan alone does not show. A state that pays for illness, age and housing raises the propensity to consume without a foreign buyer.

On the bridge's side, the vendor financing is on state banks, behind capital controls, and may move into the successor's currency as the yuan bridge is built. When a borrower fails, Pakistan or Zambia or Sri Lanka, it leaves a loss that a sovereign can recapitalize by fiat

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2025.

[801] Guo Yanhong, deputy director of the National Health Commission, State Council Information Office press conference, July 30, 2025 (the childcare subsidy "the first large-scale, universal, direct cash subsidy for people's livelihood since the founding of New China"), as reported by Wallstreetcn, https://wallstreetcn.com/articles/3752221; Fan Yiying, Sixth Tone, July 30, 2025 (3,600 yuan a year per child until the age of three; an initial central budget of about 90 billion yuan for the year), https://www.sixthtone.com/news/1017423; Xinhua, July 28, 2025 (the commission's estimate of more than 20 million families a year), https://www.news.cn/politics/20250728/5c9173fb419f4d2284b75065d61d149f/c.html; CPC General Office and State Council, Implementation Plan for the Childcare Subsidy System, July 28, 2025.

[802] State Council, special action plan on consumption, March 16, 2025; Ministry of Finance at the State Council Information Office, June 10, 2025, as reported by Xinhua (66.74 billion yuan of central employment subsidy funds for 2025), https://www.news.cn/fortune/20250610/5b6fb154bbc0469c8bd1991321aa8a81/c.html.

[803] World Bank, World Development Indicators, GDP in current yuan (140.19 trillion in 2025), https://api.worldbank.org/v2/country/CHN/indicator/NY.GDP.MKTP.CN?format=json&date=2022:2025.

[804] The State Council five-year plan on new urbanization, August 2024; the yuan-denominated lending as cited in the bridge paragraph.

with no foreign creditor. Once the loan is in yuan, the currency mismatch moves off the lender's books and onto the borrower, still earning rupees or kwacha against a yuan bill. The cost is a risk of domestic inflation, and so far the formation has been running the other way, through nine quarters of deflation. A shunt is a shunt whoever owns it. Absorbing losses alone does not distinguish the formation, since the incumbent's state absorbs them too. The tests are who bears the losses and whether production moves toward unmet needs.

The war puts new pressure on China's export markets and the capacity of its customers to pay. It makes distribution at home and control of investment more urgent without closing every external outlet. Redistribution can also come under a capitalist recomposition, so distribution alone does not decide the branch.

China's overseas lending tests the class content of its accumulation from the recipient's side. Lenin did not define the export of capital by keeping the periphery agrarian. He said the opposite: the export of capital influences and greatly accelerates the development of capitalism in the countries to which it is exported, and Russia was such a country, industrialized on French and British money. The permanent strip mine is the dependency school's addition, and it is contested even on its own ground. What makes capital export imperialist in Lenin is control and destination: finance capital of the exporting country holds the assets, the super-profits flow home and fund a labor aristocracy there, and the monopolist blocs divide the world among themselves.[805]

So whether the periphery industrializes does not discriminate by itself. Lenin expected it to. What discriminates is who owns the capacity, where the surplus goes, whether the technology and the productive base transfer, and whether the relation subordinates the recipient state or is contracted between sovereigns with the recipient setting the terms. The socialist precedent for the last two is the one China itself received. The Soviet Union's 156 projects of the 1950s transferred turnkey plants, blueprints, and cadres on credit repaid in goods, which is what building another country's productive base looks like.[806] In China's own second stage, the 1980s and 1990s, policies in sectors such as automobiles conditioned foreign access on joint ventures and local content and sought technology transfer. The recipient was trying to extract industrial capacity from the capital exporter; those requirements did not ensure that every venture transferred the capabilities it wanted.[807]

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[805] Lenin, V. I. Imperialism, the Highest Stage of Capitalism. 1917. In Collected Works, vol. 22, 185–304. Moscow: Progress Publishers, 1964. https://www.marxists.org/archive/lenin/works/1916/imp-hsc/index.htm Chapter 4.

[806] Giorcelli, Michela, and Bo Li. "Technology Transfer and Early Industrial Development: Evidence from the Sino-Soviet Alliance." NBER Working Paper 29455, November 2021, revised December 2025. https://www.nber.org/papers/w29455.

[807] Office of the United States Trade Representative. 1996 National Trade Estimate, People's Republic of China, automotive industrial policy. https://ustr.gov/archive/Document_Library/Reports_Publications/1996/1996_National_T

That second stage is now being run against China, and it is the new structural fact. An exporter seeking outlets for surplus capacity can give recipient states more bargaining power, especially where they control resources or access to a market. The degree of that power depends on the investor's alternatives and the terms the recipient can enforce. Indonesia is the case. It banned raw nickel ore exports in January 2020, against disputes its Western trading partners filed at the WTO and their predictions of failure.[808]

The capital that built the smelters, most of it Chinese, was compelled, because the ore could no longer leave the country unprocessed.[809] Thailand ran the same play on autos, cutting EV import tariffs on the condition that every imported vehicle be matched by domestic assembly by 2025, and BYD, Great Wall, and Changan answered with local production, Great Wall in a converted General Motors plant.[810] Africa's version is the market side: on May 1, 2026 China implemented zero tariffs on 100% of tariff lines for all 53 African countries with diplomatic ties, unilaterally, with no reciprocal reductions required.[811] That

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rade_Estimate/1996_National_Trade_Estimate-People%27s_Republic_of_China.html ; Howell, Sabrina T. "Joint ventures and technology adoption: A Chinese industrial policy that backfired." Research Policy 47, no. 8 (2018): 1448–1462. https://www.sciencedirect.com/science/article/pii/S0048733318301124

[808] World Trade Organization, Indonesia: Measures Relating to Raw Materials (DS592), the European Union's complaint against the ore export ban, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds592_e.htm.

[809] Gracelin Baskaran, CSIS, July 11, 2024 (investment in Indonesian mineral processing and manufacturing up from $3.56 billion in 2019 to $10.96 billion in 2022, "driven overwhelmingly by Chinese financing"), https://www.csis.org/analysis/diversifying-investment-indonesias-mining-sector.

[810] Ahmed Albayrak, Lowy Institute, June 24, 2026 (temporary import-duty reductions on fully built EVs in exchange for commitments to local production), https://www.lowyinstitute.org/the-interpreter/thailand-s-auto-industry-has-a-bigger-problem-than-china; The Nation (Bangkok), March 18, 2024 (the Board of Investment's terms: one locally made EV for each import in 2024 and 1.5 in 2025), https://www.nationthailand.com/thailand/policies/40036474; Board of Investment of Thailand, "Thailand's Supercharged EV Sales Poised for a New Surge," undated, 2024 (BYD's new factory at Rayong, 32 billion baht, opened July 4, 2024; Great Wall Motor's conversion, for 22.6 billion baht, of a factory it bought from General Motors in 2020; Changan's local production from 2025), https://www.boi.go.th/en/advertorial16.

[811] Customs Tariff Commission of the State Council, announcement of April 28, 2026, as reported by Xinhua, April 29 (zero tariffs for all 53 African countries with diplomatic ties from May 1, 2026 to April 30, 2028, extending to the other 20 the treatment on 100% of tariff lines given to the 33 least developed since December 1, 2024; the commerce ministry's words: "unilateral, full-coverage zero-tariff treatment"), copy at https://english.shanghai.gov.cn/en-PolicyInsights/20260429/522b9bd9d6a746ec97ce9c7621fc167a.html.

is the periphery ending the strip-mine role by leverage, and Beijing complying because its overcapacity needs somewhere to go. The flood that destroys the incumbent's rent is, from the periphery's side, an industrialization subsidy: the panels, machinery, and vehicles a poor country could never have bought at the incumbent's prices, sold at the challenger's, and installed on the recipient's terms. Its durability rests on that economic dependence.

The ownership and trade figures complicate that account. In Indonesia, Chinese firms control approximately 75% of refining capacity, and China took 82% of Indonesia's nickel exports in 2024. The figure that would settle the question, what share of the export value is captured by Indonesian capital and not by majority-Chinese processors, has not been located in the public sources checked for this work as of October 2026. Local-content targets are set at 30% and audited outcomes have lagged the announcements. In Africa, the zero tariff arrives on top of a structure that is still raw for manufactured, with a record African deficit of $102 billion in 2025. Africa exports oil, ores and agricultural products and imports textiles, machinery and electronics, and Afreximbank's own read is that the measure needs broader reforms to be captured.[812]

On default, Beijing's banks extend maturities and adjust financing costs instead of accepting haircuts on principal. Zambia's deal cut the coupon to 1% until 2037 and pushed maturities on $6.3 billion of bilateral debt to 2043, an average extension of more than 12 years. Like Castile's conversion of short advances into long-term claims, this postpones the reckoning; here the creditor offers a finite extension between states. It cuts both ways. A 1% coupon for a generation is a loss taken through time with the principal intact, and how close it comes to a grant depends on the discount rate applied to the payment schedule. It is also a creditor protecting its claim. Against it stands the captive discount on sanctioned oil, Iranian and Russian barrels bought below the world price because the seller has no other buyer, which is rent extracted from a partner.[813] The debt-trap reading, meanwhile, fails on its own exhibit: Hambantota was a 70% stake Sri Lanka sold to raise cash, with the proceeds used to service Chinese and other debt, a privatization, not a seizure.[814]

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[812] General Administration of Customs of China, 2025 trade data, January 2026; Indonesian Ministry of Energy and Mineral Resources for the nickel figures. China-Africa trade in 2025 came to $348 billion: Chinese exports up 25.8% to $225 billion, imports up 5.4% to $123 billion. China supplies 80 to 90% of Indonesia's nickel-refining machinery. Indonesia accounts for roughly 58% of global nickel production, and its nickel-related industries grew fivefold between 2013 and 2022. The compelled investment went into domestic refining and high-pressure acid leach (HPAL) plants.

[813] Delivered-price assessments to Shandong: Bloomberg, February 26, 2026 (Iranian Light $11 and Urals $12 below Brent), copy at https://gcaptain.com/russia-iran-oil-price-war-china-india-retreat/; Reuters, April, June 4, and July 13, 2026 (premiums of $1 to $2 in April and May, a discount of 50 cents to $1 in June, $2 to $3 below Brent in July with Gulf grades $5 to $8 below), copies at https://mediaselangor.com/en/2026/06/377639 and https://mediaselangor.com/en/2026/07/384172.

[814] Brautigam, Deborah. "A Critical Look at Chinese 'Debt-Trap Diplomacy': The Rise of a Meme." Area Development and Policy 5, no. 1 (2020): 1–14.

So Chinese firms substantially own the plants, the surplus substantially returns to China, the terms are softer than the last century's and harder than a gift, and the industrialization is real, all at once. The recipient state extracts the development by leverage, as China extracted its own, whatever the exporter intends, and the same act carries two class contents, which the terms decide. A socialist state exporting overcapacity to build a periphery that can absorb it is making the socialist branch's world-scale move, and the move is self-interested, because it creates the demand the capacity needs. A capitalist state doing the same for interest and collateral is practicing Lenin's capital export.

The incumbent's law has already ruled on the case at first instance, and the ruling goes on the record. The WTO panel found Indonesia's ban inconsistent with its obligations in November 2022. Indonesia appealed in December 2022 into an appellate body the incumbent had itself emptied by blocking its appointments, and the WTO's case record still ends with that appeal, which leaves the panel's finding unadopted and the appeal with nowhere to go.[815] The capital built the smelters anyway. The case exposes a legal order whose guarantor has disabled its own enforcement, and it asks what obligations the rising power will accept in return for the capacity it supplies.

At home, the state's response to the falling rate is on the record, and it points both ways in the same quarter. The anti-involution campaign launched in July 2025 with more than 50 measures across industries. A draft amendment to the Pricing Law, released for comment the same month, would bar selling below cost to squeeze out competitors, and the planning and market regulators issued cost-accounting guidance against disorderly low-price competition in September 2026.[816] Two-year plans covered 10 key industries, with many setting output growth targets for 2025 and 2026 below 2024's rates.[817] In the other direction, vehicle trade-in subsidies continued into 2026 amid deflationary pressure.[818] On one reading that is the plan restoring proportionality between departments. On the other it

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https://doi.org/10.1080/23792949.2019.1689828

[815] World Trade Organization, Indonesia: Measures Relating to Raw Materials (DS592), https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds592_e.htm: the panel report of November 2022 and Indonesia's appeal of December 2022. The case record checked for this work ends with the appeal and the European Union's acknowledgment that the deadlines are suspended; no completed appeal was identified.

[816] National Development and Reform Commission and State Administration for Market Regulation, Pricing Law of the People's Republic of China (Draft Amendment), released for public comment July 24, 2025, Article 14 (below-cost pricing to squeeze out competitors or monopolize the market, with exceptions for lawful price cuts on perishable, seasonal or overstocked goods); the two agencies' cost-accounting guidance of September 2026 on disorderly low-price competition. The draft is a consultation text; its enactment was not identified in the check for this work.

[817] Li, Clarence. "Will China's anti-involution policy succeed?" T. Rowe Price, October 2025. https://www.troweprice.com/institutional/de/en/insights/articles/2025/q4/will-chinas-anti-involution-policy-succeed.html

is the collective capitalist managing the rate of profit on behalf of its firms, banning the competition that lowers it, and exporting the overcapacity, which is the counteracting tendency on Marx's list and the whole of the orthodox critique. Both readings can accommodate intervention against destructive price competition. They differ over what the intervention serves: greater household income and public provision, or protected returns and continued private accumulation. The destination of the gains must be examined together with who controls investment; support for firms alone cannot decide between the branches.

The trajectories of Korea, Taiwan, and Singapore, and of Eastern Europe after 1991, are the recomposition's comparators: developmental states that industrialized under direction and resolved into subordinate nodes of the incumbent's architecture, their planned forms absorbed into the accumulating purpose, their bourgeoisies competent for a generation and then rentier. The clause that distinguishes China from every one of them is the party in command, without the Russian rupture, and without the subordination that made the tigers' competence temporary. Whether that clause holds is what the tests measure.

For a capitalist China, foreign markets, domestic redistribution and a war economy remain possible outlets. Financing customers abroad can sustain demand if their production develops enough to service the credit and buy further output. It can also leave China carrying claims on customers weakened by the same war and trade restrictions. Nuclear danger makes conquest a hazardous route to a settlement, while military procurement can still organize demand under capitalist control. Japan's long stagnation was sustained within an American-led world economy that continued to expand. China would have to sustain its adjustment while helping maintain the markets on which that adjustment depends.

On this work's reading, the durable answer is to route more of the surplus product to households as wages and public provision, reducing dependence on external buyers. A capitalist state can redistribute while preserving private command over investment. The socialist branch requires that the provision endure when it lowers returns and that the private class lose the power to reverse it. The anti-involution campaign and the subsidies cannot decide the issue by themselves: their class meaning depends on where the gains go and who can direct them. The materialist claim is that these conditions force a choice onto the party; they do not make its decision in advance. A war economy remains another possible response, and its investment can build productive capacity even while military competition consumes the means of sustaining it.

The *Grundrisse* passage on machinery can now be read from the other side. Reducing necessary labor to a minimum threatens a system whose profits depend on wage labor, and it is the precondition of everything else for a formation that does not need profit to reproduce itself. If wage income can no longer provide access to the output, distribution has to change. That could mean common provision under collective control, or private

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[818] China, National Development and Reform Commission and Ministry of Finance. Notice on implementing large-scale equipment renewal and consumer-goods trade-ins in 2026. December 30, 2025.
https://www.ndrc.gov.cn/xxgk/zcfb/tz/202512/t20251230_1402851.html

owners collecting rents while the state supplies purchasing power. The ownership and political arrangements would decide whether production had passed beyond capitalism. Where people can share and adapt the released models, they gain tools they can use for collective production. The release alone does not show production without profit: the laboratories are private firms, and commercial hosts serve their models for profit.

Two series decide this chapter's question. The first is the household consumption share of output, read beside the social wage and the destination of the margin the anti-involution campaign preserves. The second is whether the state acts against the new industrial fortunes as it acted against the property fortunes, on terms that take command over investment from the class and do not hand it to another private winner. A household share, a labor share and a wealth Gini left where they are, with the plan giving way to those fortunes wherever the two collide, would confirm the trapped-transition reading. The test at the end of the last chapter covers both.

XXVIII. The War Refused

This chapter takes the successor's conduct in the order the argument needs it. First comes the envelope that let China develop slowly, with the doctrine of patience it made possible, and then the inversion of the encirclement that broke the Soviet Union. The objections follow: the ecological bound, Lenin's test for imperialism, the billionaires and the critics. Last comes the war itself, in its mode, its constituencies and Taiwan, where the refusal is tested.

On the envelope

The variable that broke the choice between Bukharin's slower development accommodating peasant farming and Stalin's forced rapid industrialization under threat of invasion was nuclear sovereignty. The dilemma was real for the conditions that held between 1917 and 1945. A credible nuclear deterrent can give a state more time for gradual development and make a general war between nuclear powers much more dangerous.

On my reading, the gradual path could not have built the tank works in time, and the compression that secured survival also produced the ossification.

The deterrent buys that time by making an invasion intended to destroy the state much more dangerous for the attacker. The state may then develop gradually, though the risk of attack remains, and build its productive base without the centralization and heavy-industry focus that produced the Soviet ossification. The second transition gave the same advantage a geographic form. The Dutch Republic had land frontiers the absolute monarchies could cross, and Britain had the Channel, which let the durable carrier develop at its own pace. The deterrent is the successor's Channel: it made the opening of 1972 safer without making it safe, and the opening ran to normalization in 1979.

The Soviet Union had its bomb from 1949, after two decades of the Stalin compression, and spent the room the bomb opened on more armament. China's arrived in 1964, before it had

locked into the institutional pattern the Soviet Union had locked into. The Soviet model had been imported and not fully institutionalized: the First Five-Year Plan had run its five years, the Great Leap disrupted its successor before it began, and the Cultural Revolution two years after the bomb disrupted whatever Soviet-style institutions had survived.

The variable is broader than nuclear sovereignty alone. A project can obtain enough security from attack to permit institutional experimentation, an envelope inside which an apparatus can afford to be questioned, through three mechanisms: its own nuclear deterrent, a patron's umbrella, or normalization with the principal enemy after victory in war. China had the first and then the third. North Korea is the case where the envelope never opened: a patron's treaty since 1961, its own weapon since 2006, and never a peace. The mechanisms protect a project from invasion. What opens the envelope is the end of the siege. Three smaller cases, Cuba, Vietnam and East Germany, show the same thing from the other side and are set out in the appendix.

The solvent's first cases were the managed wars of Korea and Vietnam: limited by fear of the weapon's use, unwinnable by the incumbent on any terms its opponent would accept, and ended by exhaustion, Korea in an armistice neither side called a settlement and Vietnam in the incumbent's exit of 1973 and the North's victory of 1975. The present war is being managed the same way, with a smaller magazine. The managed wars also set the rule of sanctuary. The bypass in Korea was total inside the peninsula and forbidden at its edge, with Manchuria and the Soviet supply line behind it off limits for fear of general war, so the solvent favored the side whose depth of reconstitution lay inside the sanctuary. The rule transfers. The incumbent would have to strike the successor's mainland to win a protracted war and cannot without touching the ceiling. The successor has no matching need, because the incumbent's base regenerates too slowly for its depth to matter.

The strategic doctrine that organizes all of this is again *On Protracted War*. Mao delivered it as lectures in 1938 at the Yan'an base area, in the second year of the war against Japan, and specified three stages of protracted struggle against a stronger enemy: strategic defensive, strategic stalemate, strategic counter-offensive. He wrote for a party that a decade earlier had been slaughtered and driven into the interior by the Nationalists it was now allied with. The doctrine traveled from the war of resistance to hegemonic-scale strategic patience.[819]

The strategic defensive is where most of the work of protracted war is done, where you build capability through indirect engagement and exhaust the enemy through indirect means. In 1978 Beijing stood with Washington against Moscow, six years after the diplomatic opening of 1972, and the economic opening it began that year was a forced hand, the one response its productive base allowed. The hand also left a record. Under the Three Worlds line of the 1970s Beijing backed Pinochet's Chile, Mobutu's Zaire and UNITA in Angola, a foreign policy that Lauesen, who defends most of the Chinese course, counts

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[819] Mao Zedong. "On Protracted War." 1938. In Selected Works of Mao Tse-tung, vol. 2, 113–94. Peking: Foreign Languages Press, 1965. https://www.marxists.org/reference/archive/mao/selected-works/volume-2/mswv2_09.htm

against it.[820] The doctrine came after. The maxim attributed to Deng, hide your strength, bide your time, dates from the years around 1990, when the Soviet collapse left the partner as the remaining adversary, and it named as a posture what the constraint had already imposed. The posture was to avoid direct engagement with American capability, and in fact to embrace America: to build a productive base partly on American trade, technology transfer and patronage while American military capacity exhausted itself in forever wars and American financial capacity in financialization and bubble construction. Over those decades the correlation of forces shifted, and the strategic defensive matured into the conditions for strategic stalemate.

By 2026, the strategic stalemate is beginning to mature into the conditions for the strategic counter-offensive. On my reading the cardiac event is the opening that phase was waiting for. Nothing in the record shows that Beijing produced it.

Beijing's own naming of the current moment is now explicit. Party explanations of Xi Jinping's strategic outlook describe "East rising, West declining." Xi has named the present period "great changes unseen in a century". He has stated "time and momentum are on our side" as a strategic posture.[821] Xi is stating in his own vocabulary, in language the cadre system can operate within, what the party's analysts have concluded about the moment. I read that language as describing the strategic counter-offensive phase of *On Protracted War*, though I have found no doctrinal text naming it as such.

The successor's restraint is doctrinal, the transition slow by design and its military spending about 1.7% of its output in 2025 on the Stockholm International Peace Research Institute's estimate, a tenth of the Soviet share in the Brezhnev-era build-up.[822] The incumbent's own tariffs and export controls build the successor's capacity faster than its own: the successor's nationalists thanked it for the tariff, and its own distributors evade the export controls at double the price.[823] And the incumbent's president now casts his citizens'

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[820] Lauesen, The Long Transition, 223.

[821] Xinhua. Account of Xi Jinping's remarks on the new development stage, February 4, 2021. https://www.xinhuanet.com/politics/2021-02/04/c_1127063703.htm ; Central Political and Legal Affairs Commission, Chang'an Jian. Account of Chen Yixin's explanation of the strategic situation, January 15, 2021, reproduced by Sina. https://finance.sina.com.cn/china/2021-01-15/doc-ikftssan6460145.shtml The east-rising formulation is attributed here to the party's explanation, while the century and time-and-momentum formulations are Xi's.

[822] SIPRI, April 2026, fact sheet Trends in World Military Expenditure, 2025 (China's spending an estimated $336 billion in 2025, about 1.7% of an output near $19.5 trillion), https://www.sipri.org/publications/2026/sipri-fact-sheets/trends-world-military-expenditure-2025; CIA estimates of the 1980s for the Soviet burden, 15 to 17% of GNP, with the revised estimates of the early 1990s higher.

[823] Renaud Lambert, Le Monde diplomatique, October 2026, on the nationalist academics' satirical report of late January 2026 thanking the president for the tariffs; Elroy Fernandes, Startup Fortune, June 24, 2026, on the Financial Times's trader quotes for banned Nvidia

opposition to the build-out as China's gain.[824] A transfer that proceeds by the incumbent's acts and the successor's patience is the one Kindleberger's sentence warns of, the heir that will not and the holder that cannot,[825] which is why the tests watch what the successor does with the opening, and not only whether it opens.

Beijing's restraint at this moment is what keeps the American architecture from systematic detonation. Beijing can degrade the architecture by withholding the cooperation its recovery requires, and it is doing exactly that. Whether it also holds capacities that would end the architecture outright is a hypothesis about leverage, which holds only while the incumbent cannot replace what Beijing supplies, and Beijing has not tested it. It licenses rare earth exports by the month where cooperation once ran freely, refuses to extend semiconductor supply chain cooperation, and refuses to absorb additional Treasury holdings. I infer that each refusal is calibrated from what Beijing has withheld and what it has left in place. On that reading, the patience developed during the strategic-defensive phase since 1978 now limits the counter-offensive, keeping the cascade structural rather than catastrophic. Washington's rejection of accommodation prolongs the losses that make a later agreement harder to avoid. As reserves and industrial buffers are spent, the United States has fewer ways to sustain its position while withholding that agreement.

Plekhanov described the French burgher under the old regime as richer, more educated and more exacting with every generation, and still obliged everywhere to give way, until 1789 made the accumulated change a leap. History, he wrote against the gradualists, makes no leaps that have not been prepared, and it is always preparing them. The successor inside the incumbent's order is that burgher: richer, more capable, more exacting, and still obliged to settle in the incumbent's currency, under the incumbent's rules and within range of the incumbent's fleet. The reforms the incumbent attempts from inside its own order are those of the old regime's ministers before 1789, which a historian of the period judged could be achieved only by the revolution they were meant to prevent.[826]

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systems in China (a DGX B300 at more than Rmb8 million, about $1.1 million, against about $400,000 in the United States) and on Reuters's report of March 2026 that prosecutors charged three people tied to Super Micro, its co-founder among them, over about $2.5 billion of Nvidia-powered servers diverted to China, https://startupfortune.com/nvidias-banned-chips-are-selling-for-twice-their-price-in-china-and-washington-still-thinks-the-export-controls-are-working/.

[824] The Associated Press, August 31, 2026, on the president's post that "China could not be happier with this anti Data Center movement", copy at https://www.wtva.com/2026/08/31/trump-defends-data-centers-saying-people-who-oppose-them-will-end-up-backwards-poor/.

[825] Charles P. Kindleberger, The World in Depression, 1929–1939 (1973).

[826] G. V. Plekhanov, A New Champion of Autocracy (1889), part II, with Schlosser's History of the Eighteenth Century on Turgot's projects. The minister was Turgot, whose reforms met entrenched privilege before the Revolution, and the historian was Friedrich Christoph Schlosser.

On the inversion

The deepest move Beijing has made, and the one Western Marxism has been least equipped to recognize, is the inversion of the encirclement topology that destroyed the Soviet experiment. Lenin in 1917–1924 was explicit that the Russian revolution could not survive in isolation. Without revolutions in Germany, Italy or Britain, the productive base for socialist construction would have to be built under permanent capitalist encirclement, and the distortions that encirclement produced would deform and likely doom the project. The German revolution failed between 1918 and 1923, fascism captured the Italian moment in 1922, and the British general strike was defeated two years after Lenin's death. By 1923 Lenin was also assigning decisive long-term importance to Russia, India and China, which held the overwhelming majority of the world's population, while asking whether the Soviet government could survive the intervening struggle.[827] The Soviet ossification that followed, Stalin, the purges, the failure to complete the transition, is what Lenin predicted would happen under exactly the conditions that obtained, and what Trotsky and the tradition broadly took as confirmation that socialism in one country degenerates because it cannot escape the pressure of the world capitalist system.

The Trotskyist framework was built under conditions where the socialist project was the smaller, weaker, less productive part of the world system. Michael Roberts judges China neither capitalist nor socialist and not now moving toward socialism as its leadership claims. That trapped-transition judgment treats USSR-style capitalist encirclement as a structural given: even with Chinese state capacity, the project will ossify or reverse from the pressure of the world market it cannot exit. This was correct as a description of the Soviet condition and is becoming a category error as a description of the Chinese one.[828]

Beijing now sits at the productive center of the world system, with 28% of the world's manufacturing value added in 2024 on the World Bank's count.[829] It has supply-chain dominance across multiple strategic industries and the capacity to set the terms on which much of the world's productive substrate and trade operates. That makes other economies

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[827] Lenin, "Better Fewer, But Better" (1923), Collected Works, vol. 33, 487–502, https://www.marxists.org/archive/lenin/works/1923/mar/02.htm.

[828] Roberts, Michael. "China as a Transitional Economy to Socialism?" Journal of Global Faultlines 9, no. 2 (2022): 180–97. https://www.jstor.org/stable/48713461

[829] World Bank, World Development Indicators, Manufacturing, value added (current US$), data updated October 8, 2026: China $4.65 trillion of a world total of $16.62 trillion in 2024, 28.0%, https://data.worldbank.org/indicator/NV.IND.MANF.CD?locations=CN-1W. UNIDO's production-index weights, a 2020 base-year share and no 2026 observation, put China at 28.5% of world manufacturing value added (Northern America 17.1%, with no separate share for the United States): UNIDO, World Manufacturing Production and Trade, Quarterly Report Q2 2026, published September 30, 2026, Table A.1 ("Share in world MVA (2020, in %)"), https://stat.unido.org/portal/storage/file/publications/qiip/World_Manufacturing_Report_2026_Q2.pdf.

dependent on Chinese production, which is a different thing from political or socialist control over its customers. The break Lenin waited for in Germany came instead in China in the years since 1949. The G7 productive base is hollowing while the Chinese productive base is absorbing. Capitalist encirclement of socialist construction was the Soviet condition. Encirclement of capitalist hollowing by a state-directed productive base is the contemporary condition. Its socialist character depends on the control, distribution and accountability examined here. The class geography has inverted with the topology: the industrial proletariat as a mass lives in the encircling formation and has been thinned and scattered in the encircled one.

The emerging economy is being built on Chinese production. On estimates published in 2025, China holds approximately 56% of the global EV battery market and over 90% of rare earth refining.[830] The climate pledge of September 2025 sets 3.6 terawatts of wind and solar by 2035, six times the 2020 stock.[831] Chinese consumption can stay weak and the country can still supply the base of every economy that electrifies, but a need for that equipment becomes a market only when someone can pay for it. So the conditions for selling that output still apply: buyers able to finance their purchases, credit Beijing can sustain, or more of the surplus reaching households at home. Cheaper energy was one of the old ways out. This time the cheaper source is built in the successor's factories, and the incumbent has answered it with a tariff.

This weakens the central structural objection the trapped-transition framing depends on, and may yet dissolve it. The objection had force when the productive base of the next economy was not yet visible. That base is now visible, and Beijing anchors it. Encirclement in the form that produced the original objection still holds at the layers above the base, and it no longer holds at the base.

The encirclement is a claim about the productive base and the class that lives in it, and the reply names the layers above the base that the incumbent's bloc still holds: extreme-ultraviolet lithography, chip-design software, the London war-risk market, and the maritime law that market relies on. Each is under assault, and the record by front is dated.

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[830] On the same estimates published in 2025, China also holds nearly 66% of global public chargers and 60% of rare earth mining. China added more battery capacity in 2024 than the United States and the European Union combined. IEA and BloombergNEF market-share estimates, 2025, copy at https://www.iea.org/reports/global-ev-outlook-2025/electric-vehicle-batteries and copy at https://www.iea.org/reports/global-ev-outlook-2026/electric-vehicle-batteries; China's updated nationally determined contribution, September 2025.

[831] The 3.6 terawatts is China's 2035 contribution under the Paris Agreement, announced by Xi Jinping to the UN Climate Summit on September 24, 2025: wind and solar to more than 6 times the 2020 level. The 15th Five-Year Plan elevates energy storage, nuclear, and hydrogen as integration priorities. China's installed wind and solar generating capacity overtook coal's in early 2025, a measure of capacity and not of the electricity each generates; its solar deployment in the first half of 2025 doubled that of the first half of 2024.

Lithography: extreme-ultraviolet machines use very short-wavelength light to print the most advanced chip patterns. The domestic program has a prototype light source in a Shenzhen laboratory, completed in early 2025 by former engineers of ASML, the Dutch monopolist in advanced lithography, and it makes the light and no chips. The state's own target of working chips in 2028 and 2030 is the realistic date.[832]

The design-software ban of May 2025 lasted six weeks and was lifted in July in exchange for rare-earth relief. The exchange exposed a constraint on American restrictions: enforcing them also risked supplies that American industry needed from China.[833]

Insurance and law: the London market still underwrites the strait, at a price that has priced the incumbent's own allies out of the water. In the war's first five weeks more than 60% of what transited moved on an Iranian nexus or by negotiated consent,[834] the shadow fleet is insured outside Lloyd's, and Beijing has stood up a war-risk pool in Hong Kong. Lloyd's own answer was to ask the American development-finance corporation to guarantee the market, the state as insurer of last resort.[835] The record is of financial and administrative

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[832] Reuters, December 17, 2025 (the Shenzhen prototype: light generated, no working chips, targets of 2028 and 2030), copy at https://www.investing.com/news/stock-market-news/exclusivehow-china-built-its-manhattan-project-to-rival-the-west-in-ai-chips-4413119; the Chinese trial-production claims uncorroborated by a wire; AEI, April 2026. The domestic extreme-ultraviolet program has more than 3,000 researchers, with Huawei coordinating, Shanghai Micro Electronics Equipment (SMEE) integrating and two teams working on the light source; the prototype generates light at a wavelength of 13.5 nanometers. The prototype was built on parts bought from the secondary market; it makes the light and, on Reuters's reporting in December and the trade press's in August, no chips. Chinese outlets have claimed trial production at Dongguan.

[833] Siemens, "A Statement from Tony Hemmelgarn," July 3, 2025, dates its Commerce Department restriction letter to May 23 and confirms the restrictions were lifted. Reuters, "US Lifts Chip Software, Ethane Curbs as China Trade War Eases," July 3, 2025, reports the July 2–3 lifting under the London framework.

[834] For the share of transits: AFP analysis of Kpler data, April 4, 2026 (from March 1 to April 3, about six in ten transits to or from Iran, 64% of cargo-carrying transits); Lloyd's List Intelligence via CBS News, April 1, 2026 (about 71% since March 1 with a connection to Tehran).

[835] Lloyd's Market Association statement, March 23, 2026; Lloyd's List, March 11, 2026 (premiums); Foreign Policy, May 11, 2026 (the China P&I Club, the Hong Kong pool, the shadow fleet); Windward, March 2026 (Chinese-linked shipping moving through both); World Economic Forum, April 2026 (Lloyd's and the DFC). At 1% of hull value, seven-day cover on a ship insured for $100 million to $140 million costs $1 million to $1.4 million. A premium of 10% costs $10 million to $14 million. For reported peak Hormuz quotes up to 10%, see Insurance Business, August 26, 2026. https://www.insurancebusinessmag.com/us/news/marine/trump-says-hormuz-is-clear--the-insurance-market-disagrees-587552.aspx The shadow fleet of 900 to 1,300 tankers is

advantages under pressure, changing at different speeds. It does not show every advantage already passing to Beijing.[836]

The word covers two encirclements, and critics will press the second. The Leninist encirclement is a topology of production and class, the socialist bubble on the capitalist sea, and the industrial evidence supports its inversion in production. The Wilhelmine encirclement is a topology of alliances: hostile great powers on every land frontier and a blockading fleet at sea. China faces a US-led alliance ring at sea, but its land borders do not reproduce Germany's ring of hostile great powers. The limits of the bubble image are taken up in the appendix.

On the bounds

The ecology this productive base operates within is not infinitely expandable. The build-out's materials run into constraints at the scale needed to electrify the global economy on the cascade's timeline, and the constraints differ by material. China is doing more on the ecological side of the transition than any other state, while defending the project against the incumbent's contestation, which limits how fast it can sequence the transition. The material base of an alternative order is possible. What binds is that the socialist and authoritarian branches both operate inside ecological bounds, and those bounds shape what can be produced on the other side of the rupture.

The ecological bounds have their own theorist inside the world-systems tradition, and he reaches this work's arc-ending conclusion by another route. Minqi Li's argument is that China is too big to succeed as a hegemon on the old terms. Incorporating the Chinese workforce exhausted the global reserve army that every prior recomposition drew on, and Chinese-scale resource throughput exhausts the biospheric accommodation space a fifth cycle would require. The arc ends, on Li's reading, for a reason independent of the succession's class character: no successor of any character can run the sequence again at the next scale. This work takes Li's ecological argument as a further reason to expect the sequence of hegemonic cycles to end. His claim that China's incorporation exhausted the accessible reserve of labor is a separate proposition, assessed here against the regional evidence. Li's route cuts against the socialist branch's optimism as much as against recomposition, since bounds that forbid a fifth capitalist cycle also constrain what socialist construction can metabolize on the far side. Those limits specify when the argument for a distinct Chinese trajectory would cease to hold.[837]

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insured outside Lloyd's, and the war-risk pool Beijing stood up in Hong Kong covered 10 ships at the war's start and is being built.

[836] For the challenge to the law of passage: Persian Gulf Strait Authority, permit requirement and supervision area of May 21, 2026, reported by ANI and Argus, May 19 to 21, 2026.

[837] Li, Minqi. China and the Twenty-First Century Crisis. London: Pluto Press, 2016. https://www.plutobooks.com/product/china-and-the-21st-century-crisis/

The integration objection also has its strongest author, and he comes from inside the lineage. Ho-fung Hung, Arrighi's student and collaborator on the East Asia work, has spent two decades building the case in three phases: China as America's head servant, the export machine recycling its surplus into Treasuries and structurally addicted to the demand of the system it was said to threaten. Then the boom as symbiosis, the coastal-export faction's dominance keeping rebalancing permanently deferred, and finally the rivalry as inter-imperial competition between two capitalisms, which is this work's recomposition case in full dress. The succession dispute inside Arrighi's own school is the dispute between the socialist branch and the recomposition case. The head-servant reading is the question of whether China's production can escape dependence on demand from the incumbent's economies, with the yuan credit bridge as the open test. The inter-imperial reading is what Lenin's test decides.[838]

On Lenin's test

Critics also cite Lenin's Imperialism: the Highest Stage of Capitalism to criticize China as a growing imperialist counter-pole, making its contest with the US an inter-imperialist rivalry like the one between Germany and Britain that led to the First World War. Lenin's five features give the term imperialism a specific economic content. The test is which features a given formation has, which it lacks, and which way the trajectory is moving.

Apply the test to China. If China is imperialist by Lenin's specific structural definition, what the CCP has been building has converged on capitalism in late form instead of continuing the transition toward the lower phase. The argument for Chinese imperialism is made most fully by Au Loong-Yu, who calls China an emerging imperialist country on Lenin's features,[839] and by others in the Trotskyist and broader Marxist tradition. It cites monopoly capital concentrated in state-owned enterprises, capital export through the Belt and Road Initiative, infrastructure-for-resource exchanges that resemble colonial mechanisms, and the features of Chinese investment in Africa and Latin America that critics describe as debt-trap diplomacy.

The argument has empirical purchase on three of Lenin's five features. Concentration of production into monopolies is real, with state-owned enterprises functioning as monopoly capital in many sectors. Capital export is real and large, with Belt and Road Initiative (BRI) investments running into hundreds of billions of dollars since its launch in 2013. Some forms of international combination through BRI institutional arrangements approximate the cartel feature, though imperfectly.

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[838] Ho-fung Hung, "America's Head Servant?," New Left Review 60 (2009): 5–25; the later periodization is discussed in the surrounding China debate.

[839] Au Loong-Yu. "Opposing US Militarisation in the Asia-Pacific Should Not Mean Remaining Silent on China's Emerging Imperialism." Interview, International Viewpoint, December 9, 2023. https://internationalviewpoint.org/Opposing-US-militarisation-in-the-Asia-Pacific-should-not-mean-remaining-silent

The argument runs into difficulty on the other two features, and on the first of them only halfway. On Lenin's second feature, the fusion of bank and industrial capital into finance capital ruled by a financial oligarchy, China has the fusion, since the state banks and the state's industry answer to one owner. It lacks the oligarchy, on this work's argument, because the party retains the ability to direct the owners of the fused capital, while the tests of capture and of workers' authority remain unresolved. The distinction is whether capital commands the state or the state commands capital. The Common Prosperity campaign and the property-sector controlled demolition are precisely Beijing asserting political authority over finance to subordinate it to productive priorities. On the oligarchy half of the feature this is the opposite of what Lenin described.

Lenin's fifth feature, the territorial division of the world, is also weak as a description of Chinese behavior. China operates very few formal military installations abroad, and the commercial ports that could extend its military reach are leases and concessions held at the host's pleasure, which is the difference between reach and territorial control. The BRI is infrastructure investment, and Chinese capital export, however large, has not been accompanied by the formal political-administrative control of foreign territories that marked the British, French and German empires. Lenin's test does not stop at the flag. His chapter on the division of the world counts the formally independent debtor, Argentina under British finance or Portugal under British protection, as a dependency. On that test the lending record on restructuring debt and extending repayment is the evidence: when Pakistan, Zambia or Sri Lanka cannot pay, the loss is taken by the lender through time and recapitalized at home, where Lenin's creditor collected tribute. The captive discount on sanctioned oil is the entry on the other side. A disputed claim in a power's near seas, including the claim to historic rights that the 2016 arbitral tribunal in the Philippines' South China Sea case found without legal basis, is a different thing from that division.[840]

China has some imperialist features, capital export and monopoly concentration, operating alongside structurally non-capitalist ones: state direction of finance, the primary-stage doctrine, and the capacity to constrain capital politically. The question for Beijing is whether the imperial features are temporary instruments of the transition or permanent features that ossify the project into authoritarian state capitalism. The Critique of the Gotha Programme test cuts in favor of the former if the trajectory is moving toward the lower phase: labor's share and control of work rise, the burden on households falls, and private fortunes remain politically subordinate. The protocol difference supports this reading. But the question remains live.

If the new strategic-industry capitalist class becomes dynastic and politically dominant, if BRI capital export develops into formal imperial mechanisms, if finance capital accumulates dominance over productive capital, then Beijing converges on Lenin's features. The claim that what the CCP has been building is structurally durable as a transition becomes empirically false. We are then in the recomposition, with Chinese structural durability replaced by Chinese imperial capitalism, and the analytical task changes substantially. Russia under the same test is in the appendix.

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[840] Permanent Court of Arbitration, South China Sea Arbitration, Award, July 12, 2016; V. I. Lenin, Imperialism, chapter 6, on formal independence and financial dependence.

Every proposed center of accumulation inherits the cost of sustaining its people and the environment it draws on. China's record gives that wider problem a concrete test. The successor's carbon dioxide emissions fell an estimated 0.3% in 2025, the first such year while its energy demand rose, on the scale of the build the state directed.[841] Its births fell to 7.92 million in 2025, the fewest since 1949, a count that falls with the number of women of childbearing age as well as with fertility per woman.[842] Raising a child there costs 6.3 times output per head, and the YuWa Population Research Institute, which measured it, identified cost as a barrier to having children.[843] The party's answers, the tutoring ban of 2021, a childcare subsidy and free preschool, are moves against the market's pricing of reproduction. The tutoring ban has not reversed the fall in births, and the subsidy and free preschool date from 2025, so their test is still ahead.[844]

China's advantage is the capacity to change those costs through public investment and the direction of credit. Electric transport can reduce exposure to imported oil;[845] a usable local transit system can reduce the money and time required to reach work. High-speed rail alone cannot perform that second task. The same state capacity could be directed toward housing and care, but the household still has to receive the benefit. Migrants' access to services, working hours and the cost of raising a family test that claim more directly than the size of an investment program.[846]

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[841] Centre for Research on Energy and Clean Air for Carbon Brief, February 12, 2026 (2025 emissions down an estimated 0.3%, flat or falling since March 2024, chemicals rising, several targets missed).

[842] National Bureau of Statistics of China, January 19, 2026 (7.92 million births, the lowest since 1949; population down 3.39 million, a fourth year).

[843] YuWa Population Research Institute, 2024 (the cost of raising a child to 18 about 6.3 times GDP per head, against 4.11 in the United States, 4.26 in Japan and 2.24 in France; China has almost the lowest fertility rate because it has almost the highest cost of child-bearing).

[844] Communist Party of China General Office and State Council, Implementation Plan for the Childcare Subsidy System, July 28, 2025; Fan Yiying, Sixth Tone, July 30, 2025, on the national childcare subsidy (3,600 yuan a year per child under three) and free preschool. The plan's record on births is so far no better than the market's. A change in decisions to have children reaches the birth count only a year or more later.

[845] IEA, Global EV Outlook 2026, Outlook for electric mobility, https://www.iea.org/reports/global-ev-outlook-2026/outlook-for-electric-mobility-chap-9-11. The IEA measures avoided oil demand against a comparable combustion-vehicle fleet.

[846] IMF, How China's Economy Can Pivot to Consumption-led Growth, February 18, 2026, https://www.imf.org/en/news/articles/2026/02/18/cf-how-chinas-economy-can-pivot-to-consumption-led-growth. The household and worker-control criteria are this work's tests of how productive capacity is used.

On the billionaires

The billionaire count is the critics' strongest exhibit. It does not tell us which industries create the fortunes or how their owners relate to state power. The Hurun Report's 2025 China Rich List recorded a sharp reversal of the prior three years' decline: 1,021 dollar billionaires (up 268), total wealth up 42% to $4.2 trillion.[847]

The fortunes come from different sectors in each economy. The American capitalist class in 2026 is concentrated in AI capex equity, financial-services rentier positions, legacy tech increasingly coupled to the same AI thesis, pharma, and inherited dynastic wealth. The European capitalist class is concentrated in luxury goods, the Arnault, Pinault, Wertheimer and Bettencourt dynasties, in inherited fortunes, and in a declining industrial base losing market share to Asian competitors. The Chinese capitalist class is increasingly concentrated in productive industrial sectors taking global market share, and the marginal new billionaire of 2025 and 2026 disproportionately so. CATL is dominant in batteries globally, BYD is displacing legacy automakers, and Xiaomi competes with Apple at unit volume. ByteDance produces real operating profits through TikTok, new AI billionaires sit at MiniMax and Zhipu, and semiconductor firms are building toward self-sufficiency under strategic state direction.[848]

The composition is not uniform. Tencent gaming and social, Alibaba and Pinduoduo platform commerce, Pop Mart collectibles, and Zhong Shanshan's bottled water remain large fortunes that look more like consumer-platform or branded-consumer accumulation than industrial accumulation. The 2026 Hurun composition still shows industrial products,

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[847] The Hurun China Rich List 2025, released October 28, 2025: 1,021 people worth more than $1 billion, up 36% on the year, and the combined wealth of the 1,434 people on the list, each worth at least 5 billion yuan, at 30 trillion yuan, about $4.2 trillion at the exchange rate of the time, up 42% (Business Standard, October 28, 2025), https://www.business-standard.com/world-news/hurun-china-rich-list-2025-billionaires-zhong-shanshan-stock-market-boom-125102800361_1.html, and the South China Morning Post, October 28, 2025 (a record list driven by the stock market), https://www.scmp.com/business/article/3330544/rich-list-chinas-billionaire-count-hits-record-stock-markets-surge. The 2024 list, with wealth as of August 30, 2024: 753 dollar billionaires, down 142 on the year and from a peak of 1,185 in 2021, the list having shrunk "for an unprecedented third year running" on the account of Hurun's chairman, Rupert Hoogewerf (finews.asia), https://www.finews.asia/finance/42242-hurun-china-rich-list-zhang-yiming-bytedance-tik-tok, and Adnkronos, October 29, 2024, https://english.adnkronos.com/2024/10/29/china-billionaires-decline-a-third-less-between-economic-crisis-and-generational-change/.

[848] Hurun China Rich List 2025, released October 28, 2025: 1,021 dollar billionaires, up from 753 in 2024; 1,434 people above the list's 5-billion-yuan threshold held 30 trillion yuan in combined wealth. Reported by Business Standard, October 28, 2025, https://www.business-standard.com/world-news/hurun-china-rich-list-2025-billionaires-zhong-shanshan-stock-market-boom-125102800361_1.html. The two counts use different wealth thresholds.

semiconductors, healthcare, and energy as the dominant Chinese wealth-creation sectors, and the property and consumer-tech shares have collapsed. The marginal new wealth is held in shares of firms in productive industrial sectors taking external market share.

These are different kinds of accumulation, even though they look identical at the level of "billionaires per country", and the shares that carry both are claims of the same kind. They differ in the firms behind the shares: what those firms can produce, the position they hold in the market, and their relation to the state. The American billionaires tied to the closed circuit hold shares in firms whose validation the AI build-out itself promises to abolish, by the Volume III dilemma that is the spine of this argument. The Chinese billionaires tied to productive industries hold firms with manufacturing capacity, taking market share abroad, under a state that directs their investment, even where the political-distributional consequences remain unresolved.

What survives of critiques even with this distinction granted: productive capital concentration that is not eventually subordinated and dissolved, that becomes permanent and acquires the political weight to capture the project that initially directed it, ends in the same place as financial capital concentration. The phase-two consolidation requires that the new productive-industrial capitalist class be subordinated and politically constrained the way the property class was. If their wealth becomes a durable power to make the plan yield to their interests, the transition has settled into state capitalism as a destination. Britain's landed class kept titles and wealth while losing command of policy. The question is whether China's new industrial fortunes will likewise be denied the power to direct the state, or will acquire it. As of 2026, the property-sector demolition demonstrates Beijing retains the capacity to act against a specific capitalist faction. Whether the state can still overrule the new industrial class when its interests conflict with the plan remains an open test.

On the critics

The Western Marxist tradition answered the Soviet ossification in two ways. One defended the apparatus after its failures were apparent, keeping the planning and ignoring the ossification. The other concluded that planning was the problem and markets the solution, keeping the critique of ossification and ignoring that the planning core was the source of the developmental capacity.

Beijing pursued a different combination. Beijing kept the planning core, state ownership of the commanding heights, party political control, explicit five-year planning and strategic industrial policy, and used market mechanisms as tools within that core and not as substitutes for it. The record shows policy adaptation and continued planning; whether the current leadership retains institutional self-correction is the succession and accountability question this work leaves open. Beijing kept Marx as operational doctrine while refusing the orthodoxy that would have prevented adaptation. The CCP also kept, through the primary-stage formulation, the acknowledgment that the system stood at socialism's first

stage and far from its higher phase, which prevented the legitimacy crisis that would have followed from claiming socialist status while operating obvious capitalist mechanisms.[849]

Looking across the Yalu from Dandong, North Korea is the pre-1960s ossified Stalinist framework preserved in amber. It illustrates one risk, what China might have become if it had followed Soviet instruction to a T, if Deng had been permanently purged, if the post-1964 nuclear envelope had been used to harden an ideologically rigid cult of personality instead of to permit the experiment that broke it and the nomenklatura. Hereditary succession stands above the constitution.

Looking north across the Amur at Russia, Beijing sees the other risk, what it might have become if Reform and Opening had been taken as Gorbachev and Yeltsin took it: full liberalization without retained political and planning core. The productive base passed to oligarchs, while demographic decline and revanchist nostalgia followed the defeated Soviet project.

Both neighbors are continual warnings. The apparatus is on a course between them.

Mao's doctrine of protracted war does not promise victory in the counter-offensive phase. It promises that victory becomes possible when the prior phases have been correctly executed, and that the counter-offensive phase has its own internal dynamics that can produce defeat if mishandled. The move toward deeper socialist consolidation, which I call phase two and which is not one of Mao's three stages, carries the same risk, and Beijing is operating without certainty about its own outcome.

For a continental power, global military reach requires an air force and navy that its productive base can sustain. This is the air-naval transition, and it is the transition Beijing is attempting. Earlier challengers show how its costs and the coalitions it provokes can endanger the wider project.

The pattern is consistent across the past four centuries. Britain became globally dominant as a naval power in the seventeenth and eighteenth centuries, and could sustain the position as an island state whose productive base required maritime extension. Wilhelmine Germany attempted it with an industry that had come to rival Britain's and naval yards that Britain still out-built, triggered a coalition against itself, and was destroyed. Imperial Japan attempted it on a productive base too small for global projection and dependent on imported energy and raw materials, and was destroyed. The Soviet Union tried to match American capability in every military domain on a base that could not sustain the cost, exhausted it in the attempt, and was destroyed. The United States made the transition from

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[849] From inside the Chinese academy: Dic Lo, IIPPE 2026, that development is not socialism but its necessary condition, that catching up can converge on developed capitalism as easily as transcend it, and that the achievements so far have stayed at the level of catching up, a long distance from socialist ideals, with a big gap between reality and the constitution's two mainstays, public ownership and distribution according to labour. And Lenin in September 1917: "either perish or overtake and outstrip the advanced countries economically as well" (Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 13), the catch-up imperative in its first form.

1898 by becoming functionally something other than a continental land power, dominated through global air-naval power for 80 years after 1945, and is now exhausting the productive base that supported the projection.

On the anomaly

The framework this work runs on marks the transition underway as an anomaly. Arrighi wrote in 1994, in the Epilogue of *The Long Twentieth Century*, that the bifurcation between American military power and East Asian economic power visible since the 1980s had "no precedent in the annals of capitalist history." He and Silver restated it in 1999 in *Chaos and Governance in the Modern World System*: in every prior hegemonic transition, financial and military power had migrated together to the rising center.[850] Amsterdam, London and New York each held both, so the verdict of the war and the verdict of the balance sheet arrived as one. The present transition split them. Productive and financial ascendancy moved to East Asia while military supremacy stayed with the declining hegemon. Arrighi and Silver flagged the split as the reason this transition could run more violently than its precedents, because a declining hegemon with intact military primacy can resist the adjustment Britain could not.

Arrighi's later formulation in *Adam Smith in Beijing* caught the configuration exactly: a power no longer hegemonic but still militarily preeminent, holding leverage through a balance of terror that links its economic policies to its competitors and financiers. Industrial capacity is now changing the distribution of military power, by a route the framework did not list. The primacy stays where it was and loses its purchase, because the capacity to build and to replace has moved to the productive side. Edwardian Britain in its autumn kept one productive capability that still led the world, shipbuilding, and could still out-launch Wilhelmine Germany nearly two to one in the dreadnought race as the rest of its industrial base migrated to its rivals. The United States kept the inverse: the reserve currency and the carrier fleet the currency financed.

The naval race has inverted accordingly. On a 2023 estimate by the incumbent's own Office of Naval Intelligence, the successor's yards hold more than 200 times its shipbuilding capacity, about 23.25 million tons against under 100,000.[851] Britain's remaining shipbuilding lead helped it maintain the fleet during its industrial decline. America's reserve currency still helps finance its military commitments, but financing cannot by itself replace the yards, suppliers and trained workers needed to meet them. That is the material difference the comparison is meant to test.[852]

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[850] Arrighi, The Long Twentieth Century (1994), 354–56, self-cited at Adam Smith in Beijing, 7; Arrighi and Silver, Chaos and Governance, 285–89.

[851] U.S. Office of Naval Intelligence, briefing slide on Chinese and U.S. shipbuilding capacity (2023), reproduced in The War Zone, July 11, 2023, https://www.twz.com/alarming-navy-intel-slide-warns-of-chinas-200-times-greater-shipbuilding-capacity.

[852] Paul M. Kennedy, The Rise of the Anglo-German Antagonism, 1860–1914 (1980), on naval competition.

On the mode of war

The Soviet Union, Vietnam and today's missile wars trace three increasingly accessible ways to resist Western military power. Their history is the socialist movement's material core told as a history of weapons. The first was parity by plan: the Soviet Union met the core's best army at Stalingrad and Kursk with an industrial base built in a decade by planning, and the price was a revolution, three five-year plans and 27 million dead.[853] The second was denial by sacrifice: Vietnam defeated the core itself with the periphery's bodies, and the price was measured in millions again.[854] The third is running now, and its two operators change the theorem. Ukraine has stalemated Russia and Iran has stalemated America, neither of them a socialist state. Both run the same solution: cheap precision in quantity, drones and missiles built from commodity electronics and solid fuel. The denial that once required a planned economy or a people's war is now available as a manufacturing recipe.

At the height of the West's military advantage the periphery could buy the weapon and never the production system behind it. The recipe now travels with the factory attached, and the deep source of the components is the industrial base of the formation the gunboats once opened. The two theaters are not symmetric, and the difference completes the

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[853] On the Soviet dead, about 27 million, the rounded figure of the 26.6 million total losses in the 1993 study by the team under G. F. Krivosheev, Grif sekretnosti sniat: Poteri Vooruzhennykh Sil SSSR v voinakh, boevykh deistviiakh i voennykh konfliktakh (Moscow: Voenizdat, 1993), in English as Soviet Casualties and Combat Losses in the Twentieth Century (London: Greenhill Books, 1997); the figure of 26.6 million as given by A. S. Zhukov and A. F. Zhukov, "Tsena pobedy: sravnitel'nye poteri SSSR i Germanii vo vtoroi mirovoi voine," XXXIV Week of Science, St. Petersburg State Polytechnic University, 2006, part 9, p. 49, https://elib.spbstu.ru/dl/007522.pdf/download; on the 1993 study's 26.6 million and the official count's rise to about 27 million under Yeltsin, the historian Boris Sokolov, interviewed by Pavel Gutiontov, Novaya Gazeta, April 5, 2017, https://novayagazeta.ru/articles/2017/04/05/72036-sem-millionov-pogibshih-stalin-vzyal-iz-golovy.

[854] On Vietnam, the Vietnamese government's first published figures, released through the Vietnam News Agency on April 3, 1995: 1.1 million communist fighters dead and 600,000 wounded over 21 years of war, and nearly 2 million civilians killed in the North and South (Associated Press, "Vietnam Says 1.1 Million Died Fighting for North," The Ledger-Star, April 4, 1995, A9, https://web.archive.org/web/20071222122211/http://scholar.lib.vt.edu/VA-news/VA-Pilot/issues/1995/vp950404/04040331.htm), against lower estimates such as Charles Hirschman, Samuel Preston and Vu Manh Loi, "Vietnamese Casualties During the American War: A New Estimate," Population and Development Review 21, no. 4 (1995): 783–812, about 1 million Vietnamese military and civilian war deaths for 1965 to 1975, as summarized by M. Giovanna Merli, "Socioeconomic Background and War Mortality during Vietnam's Wars," Demography 37, no. 1 (2000): 1–15, https://u.demog.berkeley.edu/~jrw/Biblio/Eprints/%20M-O/merli.2000.pdf.

theorem. Both run it on the successor's components, as Russia does. Ukraine also depends on the incumbent and its European allies for its Patriot interceptors and much of its artillery ammunition, and that magazine is exhausted, so it may yet lose. Iran needs nothing the incumbent makes and may yet win, with the memorandum's terms already priced accordingly.

The strait has seen the pairing before. Hormuz fell in 1622 to a Persian army carried on the English company's ships, the regional power with the rising sea power behind it.[855] This time the rising power sends the factory and keeps its ships at home. The recipe is general and the hinterland is particular. Denial has been democratized; sustained denial still depends on holding the production system, which returns the reversal to the formation this work centers, its arsenal, not its operator.

Five centuries of the asymmetry ended without a rival to inherit it. The French naval school of the 1880s, the Jeune École, saw the torpedo boat sink the battleship and concluded the battleship was finished, right about the vulnerability and wrong about the conclusion.[856] The carrier may have a future, in the hands of whoever can replace one. The monopoly on that has closed, so the present fleet count and the capacity to replace it now carry equal weight. The 11-carrier monopoly is the asymmetry's terminal form, the largest concentration of the old capability ever assembled, exposed to weapons that cost a fraction of what they threaten, and kept out of the strait it was built to hold open.

The comparison with 1914 assigns each state more than one seat. A seat is a role in one comparison, whether economic position, strategic geography or political vulnerability, and no verdict on the whole state. Germany in 1914 held two: it was rising against Britain and peaking against Russia, whose rearmament was due to finish in 1917, and it made its now-or-never bid against the second clock. China holds two and the outline of a third. In its economy it is the America of 1914, the base already moved and the creditor biding. In form it is the Britain of the second transition, the mixed formation carrying the new mode inside the old. In strategic geography it has Germany's outline, a continental power building a fleet against the maritime incumbent with a treaty ring along its sea frontier, and little of Germany's condition: its land frontiers run along Russia, Pakistan, Central Asia and North Korea, and pipelines and rail cross them that no navy can stop. The bomb has also removed the Schlieffen option, the quick campaign to defeat one great opponent before facing another.[857]

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[855] João Teles e Cunha, "Portugal i. Relations with Persia in the Early Modern Age (1500–1750)," Encyclopaedia Iranica, July 20, 2009, updated November 8, 2012, https://www.iranicaonline.org/articles/portugal-i/. Albuquerque took Hormuz in 1507, lost it in 1508 and returned in 1515. The opening refers to the initial Portuguese armed intervention, seventy-four years after the last Ming expedition returned.

[856] Ropp, Theodore. The Development of a Modern Navy: French Naval Policy, 1871–1904. Edited by Stephen S. Roberts. Annapolis, MD: Naval Institute Press, 1987.

[857] Hew Strachan, The First World War (2004); David Stevenson, Armaments and the Coming of War: Europe, 1904–1914 (1996), on the prewar armaments competition.

The incumbent holds more than one seat as well. In political vulnerability it is prewar Britain, the violent incumbent of the Boer War and the naval race. The likeness stops at the finances and the yards: Edwardian Britain was the world's creditor with a budget near balance, and its yards launched most of the world's tonnage. In its public finances the incumbent is Bourbon France, a military power that spent itself contesting the rising center in every theater, with a privileged estate it cannot tax. In fiscal 2025 its net interest outlays, about $970 billion, came to nearly a third of its individual and corporate income-tax receipts combined. The Bourbon monarchy's last war was a victory, in America, and the bill for it made Louis XVI summon the Estates-General.[858][859]

The roles repeat: China refuses the Wilhelmine path, Russia takes Japan's lunge of 1941, and the United States takes the strangling incumbent's. The incumbent fought Sedan's plan at the strait, as Halder fought it in 1941, and the second phase formed anyway. The regeneration it met had been rehearsed. By June 16, 2025, Israel said it had destroyed about a third of Iran's missile launchers.[860] The following March, the Israeli military said Iran had rebuilt about 200 launchers in the eight months before the new war.[861]

The adversaries fight the war of rebuilding forces after the opening defeat, the Army of the Loire's war, with the institution built. Estonian intelligence estimates that Russia produced

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[858] Navy Times, September 1, 2026, on the base in Bahrain; Edelstein, Overseas Investment in the Age of High Imperialism (1982), for the portfolio; the yard capacity from the U.S. Office of Naval Intelligence's 2023 briefing slide, reproduced in The War Zone, July 11, 2023. Congressional Budget Office, Monthly Budget Review: Summary for Fiscal Year 2025, November 10, 2025 (individual income taxes $2,656 billion and corporate income taxes $452 billion; its footnote 1 explains why net interest on the public debt, $1,028 billion, differs from net interest outlays), https://www.cbo.gov/system/files/2025-11/61307-MBR-FY25-final.pdf; net interest outlays $970 billion as in the Treasury's Monthly Treasury Statement for September 2025.

[859] Allied industrial capacity gives Washington a possible means of rebuilding maritime capability: the ICE Pact of July 2024 joins the United States, Canada and Finland in building icebreakers. The test is whether cooperation delivers usable ships, trained crews and sustained operations within the relevant strategic window. Joint statement of July 11, 2024 (Compilation of Presidential Documents, DCPD-202400599); joint statement of intent, November 18, 2025.

[860] Fabian, Emanuel, and Reuters. "IDF Says It's Attacking Missile Launchers in Western Iran." Times of Israel liveblog, June 16, 2025. https://www.timesofisrael.com/liveblog_entry/idf-says-its-attacking-missile-launchers-in-western-iran/ The fraction is the Israeli military's estimate as reported on that date.

[861] Bob, Yonah Jeremy. "IDF: It Will Take Iran Years to Rebuild Its Military Industrial Complex." Jerusalem Post, March 15, 2026. https://www.jpost.com/middle-east/iran-news/article-890018 The claim of about 200 launchers rebuilt over eight months is attributed to the Israeli military, not an independently verified inventory.

7 million artillery rounds in 2025 against 400,000 in 2021.[862] On the incumbent's side the war drew down Patriot stocks accumulated over years, and replacement runs on a much slower clock.[863] The improvised levée lost in 1870; the standing institution won in 1941. Since 2022 the factory has again been decisive. Sustained industrial output and mass enlistment remain different capacities; a state can expand one without mobilizing its whole society.

The bomb did not abolish the levée or end conscription by itself: the United States drafted some 1.86 million men for Vietnam inside the nuclear era.[864] It made general war between the principal powers, the war total mobilization had been for, potentially catastrophic. After Vietnam the incumbent made its own choice, ending the draft and fighting since with professionals, machines and borrowed money. Wars fought under that constraint have still demanded very different kinds of mobilization. Ukraine has drawn widely on its population and industry; Russia has expanded war production while combining contract recruitment with a partial mobilization. Neither case makes nuclear restraint a guarantee of safety for the non-nuclear state. In Ukraine the larger power, Russia, fights with contract soldiers paid bonuses, after one partial mobilization it did not dare repeat, and has spent four years

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[862] Estonian Foreign Intelligence Service. International Security and Estonia 2026. Section 5.2, "Russia's Artillery-Ammunition Production, 2021–2025." https://valisluureamet.ee/doc/raport/2026-en.pdf.

[863] Lockheed Martin, "Lockheed Martin and Department of War Advance Landmark Acquisition Transformation to Accelerate PAC-3 MSE Production," January 6, 2026, https://investors.lockheedmartin.com/news-releases/news-release-details/lockheed-martin-and-department-war-advance-landmark-acquisition (620 deliveries in 2025; a seven-year framework to raise annual production capacity to approximately 2,000); Zelensky, March 2026 (about 800 PAC-3 fired by Gulf partners in the war's first days); Center for Strategic and International Studies, Cancian and Park, May and July 30, 2026 (the estimated Patriot inventory, earlier PAC-3 types included and older PAC-2s left out, from about 2,330 before the war to 1,030 at the April ceasefire and 759 to 827 after the renewed fighting, 65% down; THAAD from 452 to 232 to 262 at the ceasefire, replenished to 234 to 278; the top Patriot variant produced at 183 a year with three and a half years from contract to delivery; replenishment of Patriots, THAAD and Tomahawks put at three years or more); Army Times, July 30, 2026. Other counts on the same comparison: Russia's 30,000 recruits a month; Ukraine's 200,000 drones a month; the Patriot line's seven-year plan to reach 2,000 a year; and about 800 PAC-3s fired by the Gulf partners in the war's first three days, on Zelensky's count in March 2026. The use figure is an estimate: Mark F. Cancian and Chris H. Park, "Last Rounds? Status of Key Munitions at the Iran War Ceasefire", CSIS, April 21, 2026, Table 1 (an estimated 1,060 to 1,430 PAC-3 interceptors used by US forces in the 39 days of the air and missile campaign before the ceasefire, on the same count), https://www.csis.org/analysis/last-rounds-status-key-munitions-iran-war-ceasefire. About half of annual production goes to allies and partners (same source).

[864] US Census Bureau, Jason G. Gauthier, "History and the Census: The Vietnam War," April 1, 2025, the draft section (about 1.86 million inductions from 1964 to 1973), https://www.census.gov/about/history/stories/monthly/2025/april-2025.html.

grinding for ground. In the Gulf the largest military and economy in the world, fighting with professionals, carriers and interceptors, has been unable to reopen a strait against an enemy whose weapons cost a fraction of the ones that shoot them down.

The successor stands behind every side of both wars at once: the commercial drones and many of the components in them, on both banks of the Dnieper, come from Chinese factories, DJI's among them, and Chinese parts run through the Iranian-designed drones Russia builds.[865] The Dutch sold grain and naval stores to both sides of Spain's war against them, and the war fed the successor. These wars feed their successor the same way, through the factories behind the drones on every side, with one difference: the Dutch fought in theirs, and the successor supplies these wars without directly fighting them. The incumbent's arsenal, carriers and interceptors priced in the billions, loses its strategic worth as what can destroy or exhaust it grows cheap, much as its AI loses exchange value to an open-weight model built at a fraction of the price.

The incumbent is trying to re-mobilize its base through exactly the instruments the war requires, a semiconductor law, munitions plants, a 1.5 trillion dollar defense request and a supplemental. So far Congress has not passed the request, and Patriot stocks depleted in the war will take years to rebuild. This work's judgment is that a war fought at these two levels favors whoever can make cheap means in quantity without mobilizing its own people, which today is the successor. Against it, Ukraine shows that a capitalist state can mobilize industry for war when outside money backs it, and the incumbent could yet rebuild its base if it chose to tax for it and to buy from itself.

Allied production is expanding. Rheinmetall commissioned its Unterlüß ammunition plant in August 2025, and NATO records wider investment in production capacity. That is evidence of an ability to rebuild. The remaining question is whether deliveries replenish the relevant stocks faster than they are used.[866]

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[865] Center for Strategic and International Studies, "Why China's UAV Supply Chain Restrictions Weaken Ukraine's Negotiating Power" (Kyiv bought 60% of DJI's 2023 production of Mavic quadcopters; China restricted exports of long-range drones to both sides in June 2023 and of drones and components, flight controllers, frames, motors, radio modules and cameras, from September 1, 2024; Russia received $14.5 million in direct drone shipments from China in 2023 against $200,000 for Ukraine); Paul Mozur and Valerie Hopkins, "Ukraine's War of Drones Runs Into an Obstacle: China," New York Times, September 30, 2023, https://www.nytimes.com/2023/09/30/technology/ukraine-russia-war-drones-china.html, on both armies' use of DJI, Autel and EHang drones, DJI's share of more than 90% of the world's consumer drones, and the intermediaries both sides use since the controls; The Sunday Times, as reported by DroneXL, on Shahed drones of Iranian design mass-produced in Russia with Chinese components.

[866] Rheinmetall, Annual Report 2025, on the Unterlüß ammunition factory commissioned in August 2025; https://www.rheinmetall.com/Rheinmetall%20Group/Investor%20Relations/Ver%C3%B6ffentlichungen/Pr%C3%A4sentationen%20und%20Berichte/2026/GB/Rheinmetall-Annual-Report-2025.pdf NATO, "Increasing defence industrial production,"

The rule that regeneration decides the crucible has a limit, shown in the third transition. Germany in 1914 had institutionalized production better than any belligerent in Europe and lost on reproduction: the blockade cut the nitrates, the fodder and the fats, the turnip winter of 1916 followed, and the home front dissolved in 1918 with the army still on foreign soil. Regeneration decides a crucible only for the formation whose own reproduction the enemy cannot reach. The Hormuz closure ran that test on the successor before any blockade was declared. China's stockpiles gave it room to reduce imports, although refinery output fell as well.[867] Its largely non-oil power system and growing electric transport reduced direct exposure to the crude shortage.[868] They did not remove its need for imported oil, or protect households and industry from every cost of the disruption. A closure of every strait at once is untested for everyone, the incumbent first among them, since it would cut the incumbent off from the manufactures, the pharmaceutical inputs and the rare-earth magnets in its own weapons.

AI could deepen this change by reducing the human attention each weapon requires. Combined with cheap drones, systems that interpret sensor data and support or automate parts of targeting could let a force operate more weapons with fewer operators. That could strengthen a weaker state's defense and expand the capacity for coercion. Operating such a force still requires reliable systems, replacement supplies and decisions about human oversight.

The best practitioner of the successor's mode of war fights for the incumbent's coalition. Ukraine turned the drone into the artillery of a nation that had lost its artillery. It built more than 4 million airframes in 2025 from some 500 makers, and by 2025 drones caused 70 to 80% of the battlefield casualties, killed and wounded, on both sides, on Western and Ukrainian estimates and not any audited count. Its deep-strike campaign had taken about a third of Russia's primary refining capacity offline by June 2026: the transparent battlefield mastered by the belligerent with the least money.[869] The airframes are built from Chinese

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accessed October 14, 2026; https://www.nato.int/en/what-we-do/deterrence-and-defence/natos-role-in-defence-industry-production Nammo, "Finance," 2025 results, accessed October 14, 2026, https://www.nammo.com/about-us/finance/ (production-capacity expansion in Europe and the United States). Factory commissioning, planned annual capacity and completed deliveries measure different things. These sources do not establish net replenishment after use.

[867] Jimmy Troderman, China's crude oil imports fell in the second quarter, EIA, July 31, 2026, https://www.eia.gov/todayinenergy/detail.php?id=67905. EIA records falling imports together with lower refinery processing and infers stock draws.

[868] IEA, Global EV Outlook 2026, Outlook for electric mobility, https://www.iea.org/reports/global-ev-outlook-2026/outlook-for-electric-mobility-chap-9-11. Electrification reduces direct oil requirements; it does not eliminate imported-oil exposure.

[869] Energy Intelligence, June 11, 2026 (nearly a third of primary capacity, 2.14 million barrels a day, offline; runs below 4 million barrels a day in the first week of June, a 21-year

components. The mode combines industrial mobilization with imported components, and the Western contribution to the masterclass was the expensive interceptors, which ran out faster than they could be replaced. The masterclass is pinned to the wrong side, and that is the clearest evidence that the mode is open to any alliance and that the production system behind it decides.

China's version is the peacetime line that never stopped, an industrial base that regenerates at war's tempo without a war.

On the constituencies

Eisenhower, in his 1961 farewell address, named the structural risk that this trajectory produces. The military-industrial complex, once built, creates institutional concentrations whose interests favor its continuation and expansion. Defense contractors, procurement bureaucracies, the politicians whose careers depend on military spending, the regional economies built around bases: all become constituencies for expansion past the point where the system produces strategic value, and they eventually capture the political process. The American case played out approximately as he described it, on a longer timescale than he may have anticipated.[870]

China attempts the transition with structural advantages the prior cases did not have. Its productive base held 28% of world manufacturing in 2024, integrated into the world's supply chains as the Soviet base never was.[871] It moves during American imperial overextension, not against an American capability at its peak. The civilian-military fusion the CCP has institutionalized, through commercial port operations, the state shipping line COSCO, the Belt and Road infrastructure and dual-use technology, provides extension capacity short of bases, without the dedicated military-logistics build-out the USSR could not sustain. One Chinese shipbuilder launched more commercial tonnage in 2024 than the entire American industry has built since 1945.[872] Its fighters, the J-20 in service and the J-35

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low), https://www.energyintel.com/0000019e-b282-df4c-a5df-b6de49990000; Reuters, June 24, 2026 (the Moscow refinery), copy at https://www.marketscreener.com/news/moscow-oil-refinery-hit-by-drone-attacks-is-unlikely-to-resume-production-this-year-sources-say-ce7f5fdbdc8bf323; the drone production figures are single-analysis counts.

[870] Eisenhower, Dwight D. "Farewell Address to the Nation." Washington, DC, January 17, 1961. https://www.archives.gov/milestone-documents/president-dwight-d-eisenhowers-farewell-address

[871] World Bank, World Development Indicators, manufacturing value added (China 28.0% of the world total in 2024), https://data.worldbank.org/indicator/NV.IND.MANF.CD?locations=CN-1W; United Nations national accounts, 1970 (USSR 12.7% of world GDP); Soviet sources claimed about a fifth of world industrial output.

[872] CSIS, Ship Wars (2025), https://www.csis.org/analysis/ship-wars-confronting-chinas-dual-use-shipbuilding-empire. The shipbuilding-capacity estimate is from the U.S. Office of Naval Intelligence's 2023 briefing slide, reproduced in The War Zone, July 11, 2023. Dan

shown in catapult launches from the carrier Fujian in September 2025, show the domestic aviation capacity available to that transition.[873]

The Eisenhower risk is real anyway. The Central Military Commission's authority over the military-industrial complex has tightened under Xi's consolidation. Both of its vice chairmen were expelled within a year: He Weidong in October 2025, and Zhang Youxia, Xi's closest military ally, on September 21, 2026, with the chief of the Joint Staff Department beside him.[874] The resources flowing into the air-naval transition are creating constituencies inside the Party-state with an interest in its continuation and expansion. That is the dynamic Eisenhower warned about and the Soviet system could not contain, and Xi's anti-corruption campaign has reached deep into the PLA leadership to purge it. Whether the party can contain it is another live experiment of phase two, and a purge cannot show it, since a purge is an event and capture is a drift. The series that can is the share of the surplus routed to arms against the share routed to the household.

I read Beijing's bet as an attempt to limit its air-naval transition, as it has limited the move from stalemate to counter-offensive. The PLA Navy's building program is calibrated to deny American operations in the Pacific and to support Chinese maritime claims and global trade, and the carrier program is the place to watch the calibration. Three carriers are in service and a fourth is building. The Pentagon's report of December 2025 assesses six more by 2035, for nine. That is the incumbent's count of the successor's intentions, made by a department that needs the threat funded, and Beijing has confirmed none of it.[875]

Nine would sit inside the band of 8 to 12 carriers that, on this work's reading, sustained global projection takes, and a count in that band would challenge the claim that Beijing is

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Wang, Breakneck: China's Quest to Engineer the Future (New York: W. W. Norton, 2025), on process knowledge accumulated in making things, the capacity whose loss the household sections record when the worker who held it is fired.

[873] Fujian Provincial People's Government. "CNS Fujian Achieves Milestone with Electromagnetic Launch of Advanced Naval Aircraft." September 23, 2025. https://www.fujian.gov.cn/english/news/202509/t20250923_7013669.htm.

[874] Xinhua, September 21, 2026, as reported by Reuters, AP and Caixin: Zhang Youxia and Liu Zhenli expelled from the Party and the military for "serious violations of discipline and law," forming cliques and disloyalty, and referred to military prosecutors, copy at https://economictimes.indiatimes.com/news/international/world-news/china-ousts-two-top-generals-from-party-military-over-serious-violations/articleshow/134388954.cms?from=mdr; investigations announced January 24, 2026, removal from the military in late August. He Weidong was expelled October 17, 2025. Zhang Youxia's expulsion came three days before the state visit and weeks before the October plenum.

[875] U.S. Department of Defense, annual report on Chinese military power, December 2025, as reported by USNI News, December 24, 2025, and Newsweek. The counterweights: repeated purges of the PLA's senior command since 2023 and a force without combat experience since 1979; the calibration test's bases include Djibouti since 2017 and Ream, in Cambodia, used by Chinese ships from 2025 without being declared a base.

keeping its expansion within defensive limits. A navy that means to keep carriers on distant stations needs about three hulls for each one on station. Beijing's doctrine remains denial of its near seas and not offensive sea control. The Fujian and the Sichuan are the calibration's test: a third carrier and a drone carrier fit a denial fleet, and a sixth carrier with declared bases abroad would not.

The one combat test of the successor's aircraft and missiles against a Western fighter so far came in Pakistan's hands in May 2025. It went the successor's way on two American officials' account, and Pakistani officials put the missile's launch at about 200 kilometers, beyond the range Indian officials had assumed.[876]

The G7 imperial core is still trying to maintain the calibration that worked in the pre-shift environment, projecting expensive offensive platforms forward against asymmetric defenders, and failing at it.

Three historical failures matter here: Germany, Japan and the Soviet Union each let military competition endanger its wider project. The Hormuz closure has already run the Japanese test on the successor's energy, and the two that remain are the Wilhelmine and the Soviet. The path between them is to build air-naval power on a productive base that exceeds the dominant power's and to hold the transition to regional capability with global influence. It also means conducting the transition during the dominant power's overextension and not at its peak, and using the institutional memory of both Soviet ossification and Cultural Revolution disruption to keep the military-industrial constituencies from capturing it.

The Wilhelmine failure mode has an economics, and the falling rate supplies it. Overcapacity with no external market seeks demand in arms, because the state is the one buyer whose orders need no later sale to a private consumer, though the state still needs resources and financing to pay for them. The shell is consumed by the state that ordered it, the steel and the chips are absorbed, and the rate of profit is restored by fiat on the order book. That is the war economy as the recomposition's exit, the one the closed export route makes attractive. Groups whose power and income depend on military expansion could thereby capture the transition without a deliberate decision to give them control. The Taiwan buildup read as military Keynesianism is that exit in its opening phase, and the arms share of the surplus against the household's tests whether it is being taken.

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[876] Reuters, May 8, 2025, citing two American officials (Pakistan's J-10 aircraft downed at least two Indian aircraft, one of them a Rafale), copy at https://www.arabnews.pk/pakistan/pakistans-chinese-made-jet-brought-down-two-indian-fighter-aircraft-us-officials-2600025, and Reuters, August 2, 2025 (some 110 aircraft engaged on May 7 on experts' estimate, copy at https://www.marketscreener.com/news/how-pakistan-shot-down-india-s-cutting-edge-fighter-using-chinese-gear-ce7c5fd3d181f224; the PL-15 fired from around 200 kilometers on Pakistani officials' account, and from farther on Indian officials'; an Indian intelligence failure on the missile's range, which two Indian officials said they had put at only about 150 kilometers).

On Taiwan

The objection that puts China in Germany's seat has authors. Hal Brands and Michael Beckley argue in *Danger Zone* (2022) that China is a peaking power, its workforce shrinking and its growth slowing, and that peaking powers lunge while they still can.[877] The record weighs against both legs. The slowing growth is the world market's, the pressure on profitability arriving in Shenzhen as it arrived in Santa Clara, and a formation that redirects its surplus by plan can move out from under it. The shrinking workforce is being answered on the factory floor: China installed 54% of the world's new industrial robots in 2024.[878][879] A formation that does not need the machine to pay for itself in profit can set it against a labor shortage where the incumbent cannot.

The two readings also predict different records. A peaking power raises military pressure as its window narrows. PLA sorties into Taiwan's air defense identification zone have run in 2026 at less than half their 2024 and 2025 level, in the year the incumbent's deployable carriers were committed to the Gulf. The zone reaches well beyond the island's 12-nautical-mile sovereign airspace, and an entry into it is not an incursion.[880] The robots and the lower sortie count weigh against a simple near-term lunge, without showing on their own that the demographic and growth constraints have been removed. The test is whether Beijing keeps refusing an unprovoked quarantine or blockade, with sustained coercion short of either also counting against the claim.

Taiwan is where Beijing's refusal to choose a war is tested, and the reliance on missiles, ships and industrial replacement capacity dictates the form. An opposed crossing of a transparent strait is the combined-arms breakthrough at its least feasible, so the available operation is the bypass applied to an island: a quarantine of a polity that imports 96% of its energy.

The clocks are unequal by an order of magnitude. The island's runs in weeks, the successor's in months on the Hormuz evidence, and the incumbent cannot win a siege race on the island's clock. It can break in, which means winning the contest for sight inside the launcher envelope, against sensors the successor's deterrent shares. It can blockade from a distance, which its magazines and its economy both forbid. Or it can accept. The successor's interest is to present no discrete act at all and let the island's price be set the way the

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[877] Brands and Beckley, Danger Zone (2022).

[878] Hal Brands and Michael Beckley, Danger Zone: The Coming Conflict with China (2022); International Federation of Robotics, World Robotics 2025, release of September 25, 2025 (295,000 industrial robots installed in China in 2024, 54% of global deployments; China's operational stock above 2 million), https://ifr.org/ifr-press-releases/news/global-robot-demand-in-factories-doubles-over-10-years.

[879] International Federation of Robotics, World Robotics 2025 (54% of the industrial robots installed in 2024, more than 2 million in operation).

[880] ISW and AEI, China and Taiwan Update, September 1, 2026, for the sortie counts, which its authors read as a change in coercion strategy.

strait's was, by accretion: an energy guarantee offered in exchange for sovereignty, Washington's credibility marked down with each month of the Gulf war.

By September the accretion had a year's record. There had been no large-scale exercise around the island since the autumn of 2025, while the incumbent fought in the Gulf. A $14 billion arms package sat on the president's desk unapproved, after he had called arms sales a bargaining chip with Beijing and the island a war 9,500 miles away.[881] Against the accretion, and marking its limits, the mainland's share of Taiwan's approved outward investment had fallen to under a tenth in 2025 from four fifths in 2010,[882] a measure of economic distance from Beijing. The discrete act is the one thing that could put China in Germany's seat, which is why the incumbent's planners have invited it since 2017.

Whether the equipment is sufficient is what the transition will test. The CCP is better-prepared than any prior continental land power that attempted the air-naval transition, which is the most that can be said before the test plays itself out. The argument that this preparation is sufficient is conditional on Beijing maintaining the calibration of regional capability and not global power projection. The argument that it is not sufficient, that the military-industrial constituencies will capture the Party-state on a trajectory the Soviet experience prefigures, remains a risk for the Chinese project.

This is wrong if Beijing blockades, quarantines or invades Taiwan by choice, unless Taipei or Washington has first changed the island's formal status. Sustained coercion short of that would also count against it.

PART FIVE: WHAT REMAINS

XXIX. The Core's Articulation Contest

If China is the structurally durable alternative, and if the existing American architecture cannot be preserved in its current form, then which outcome follows, a socialist core beside China, an authoritarian core contesting it, or systemic chaos, depends on what happens inside the imperial core while the old order breaks, the period I call the rupture phase. This

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[881] Jonathan A. Czin, "The Coming Taiwan Crisis," Foreign Affairs, September 25, 2026; Fox News (Baier) and Air Force One, May 15 to 16, 2026 (Axios; Fortune: the package "in abeyance, and it depends on China", https://fortune.com/2026/05/16/trump-thinks-taiwan-is-a-very-good-negotiating-chip-with-china/; "a war that's 9,500 miles away"); the assistant secretary of state's testimony of July 2026 that the package does not depend on negotiations with China.

[882] Taiwan, Mainland Affairs Council. Assessment of ECFA after sixteen years, July 2026. https://www.mac.gov.tw/EN/News_Content.aspx?n=2BA0753CBE348412&s=9C9D3224A8F470BA&sms=E828F60C4AFBAF90 The cited shares concern approved annual outward investment, not bilateral trade or the accumulated stock of investment.

is the articulation contest: which organizations can turn discontent into a shared program and durable political power, grievances first, then the capacity to block, then an organization that persists, then the ability to govern. That is the live variable that distinguishes the socialist branch from the authoritarian one.

The articulation contest is already in motion as the recognition that Chinese productive ascendance has produced inside the diminishing G7. The hollowing of the G7 productive base across 40 years has created the material conditions for mass anti-status-quo political articulation. Trump's 2024 victory was a backlash against immigration and inflation, and against the felt experience of imperial decline,[883] a decline relative to a productive challenger. By August 2026 the registration had reached the coalition's own base, at speed. Among adults without a college degree, net favorability toward the MAGA movement fell from plus 6 in October 2024 to minus 22 in the figures CNN's Harry Enten presented on August 7, drawing on Marquette Law School polling. Voters without a degree had helped deliver Trump's 2024 victory, but favorability measures opinion, not ballots.[884] Affordability is doing the moving: wage growth below inflation, the 30-year mortgage at pre-2008 highs, a national gasoline price up about 36% since the war began in February.[885]

Falling support for the incumbent opens a struggle over what has gone wrong and what should replace it. People enter that struggle with existing loyalties and experiences, and they can reject the explanations offered to them. An organization has to earn their participation and give them ways to act together if anger is to become a durable political force.

Which explanation people take up affects what they do next. A campaign against a landlord or a software monopoly can test an account of power through a rent demand, a shared tool or a fight over control. Successes and failures can change the participants' explanation and their organization. Anger alone supplies no such test. Nor does recognizing concentrated wealth settle whether someone wants to abolish its power, redistribute it or acquire a

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[883] The inequalities behind those household budgets also have a bodily history: on 2001-to-2014 data, Chetty and colleagues estimated that a man of 40 in the top hundredth of household incomes could expect to live 14.6 years longer than one in the bottom hundredth. Raj Chetty and others, "The Association Between Income and Life Expectancy in the United States, 2001-2014", JAMA 315, no. 16 (2016): 14.6 years for men and 10.1 for women.

[884] Harry Enten's CNN analysis, August 7, 2026, as reported by Marco Margaritoff, HuffPost, that day; Marquette Law School Poll, "Detailed Results of the Marquette Law School Supreme Court Poll – July 22–29, 2026," released August 5, and its education crosstabs. Enten gives MAGA net favorability among adults without a college degree as plus 6 in October 2024 and minus 22 in the latest survey. Net favorability subtracts the unfavorable share from the favorable share; it is not a vote margin.

[885] TheStreet. "August sees a dubious record on gasoline prices." August 2026. https://www.thestreet.com/automotive/average-gas-prices-in-the-month-set-a-new-high-for-august

share of it. The socialist possibility depends on people building institutions through which they can make and enforce collective decisions.

The consolidation the regime is reacting to should be stated precisely, because its two registers are at different stages. The articulation register is demonstrated. Primary victories run from the municipalities to a statewide Senate nomination. In 2026 the Secretary of State called a membership organization a foreign plot,[886] and anti-communist oratory was restored to the Fourth of July.[887]

On August 7, during Fox Business's discussion of the July employment report, one panelist named socialist candidates winning their races as his biggest fear for the economy.[888] That identifies what he feared; it does not establish the candidates' capacity to carry out their programs. A threat to an investor's control or returns need not be the same as a threat to people's livelihoods. The Weimar comparison concerns that conflict of interests, not an equivalence between today's electoral socialists and the German Communist Party. An owner may prefer a government that restricts democratic power if the alternative threatens his property. Explaining that choice requires asking what he expects to protect and who will pay its costs.

The pricing now runs in the other direction as well, because the population has found a material lever on the circuit itself. The business press treats the data-center backlash as a siting nuisance. By the first quarter it was counted: projects worth about $130 billion were blocked or delayed in those three months, the most on record,[889] and in July New York

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[886] Democratic Socialists of America. "DSA Statement on the New State Department Report on Cuba." August 10, 2026. https://www.dsausa.org/statements/dsa-statement-on-the-new-state-department-report-on-cuba/ ; Foreign Policy. Reporting on the State Department's Cuba report, July 20, 2026. https://foreignpolicy.com/2026/07/20/state-department-cuba-report-left-wing-terrorism-rubio-trump/ These document the administration's allegation and DSA's response, not the truth of the allegation.

[887] Diario AS. "Trump Blasts Socialism in Final Moments of July 4 Speech." Video published July 5, 2026. https://www.youtube.com/watch?v=wo7N5J7Sd5Q

[888] Fox Business. "NO REBOUND: July Jobs Report DISAPPOINTS, Market SOARS." Mornings with Maria, August 7, 2026, 33:14–33:32. https://www.youtube.com/watch?v=DVS8DN9U7ts The supplied transcript and the inspected captions do not securely identify this final speaker. He does not explicitly compare this fear with the war or the jobs figure.

[889] Data Center Watch, Q1 2026 report (at least 75 projects, about $130 billion, https://www.datacenterwatch.org/q1-2026; opposition groups from 396 to 833 across 49 states; more than 300 state bills in six weeks, statewide moratorium proposals in 14 states); Bloomberg, September 21, 2026, on the second-quarter count, as reported by Tom's Hardware and Gizmodo, https://bloomberg.com/news/articles/2026-09-21/new-data-centers-worth-68-billion-disrupted-in-us-data-show. The counts in the body's sources: 75 projects in the first quarter, as much as all of 2025, and 45 worth $68 billion in the second, with 843 organized groups in 49 states and 30 statehouses acting on siting,

paused every new hyperscale permit for up to a year, its governor saying progress should not arrive with a higher utility bill.[890] The Republican Senate committee's August memo called it a sleeper issue for the entire midterm cycle.[891]

The president answered the opposition at the end of August. Communities that refused data centers would end up "backwards and poor", he wrote, and "China could not be happier with this anti Data Center movement." His vice president's gloss conceded the cause: 99% of the backlash, he said, had come where a data center meant higher utility bills for the people on the ground.[892]

On September 24 the lever was pulled against one 2.45-gigawatt campus.[893] Oracle, the tenant of Project Jupiter, the Stargate campus in Doña Ana County, New Mexico, sent its developer, Stack Infrastructure, a unit of Blue Owl, a force majeure notice claiming the right to defer its payments if the site misses 2028. The developer may contest the claim, and no deferral had been agreed or adjudicated when the notice was sent.[894] The notice came after

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power and water.

[890] Governor of New York, releases of July 14 and 16, 2026 (the executive order pausing state environmental permits for up to a year for new hyperscale facilities of 50 megawatts or more; data centers to produce their own power or pay a premium for the grid).

[891] National Republican Senatorial Committee. "Ohio Data Center Risk." Memorandum, August 18, 2026. Reproduced by the New York Times, August 23, 2026. https://monorepo-sample1.nyt.net/interactive/2026/08/23/universal/memoohdatacenters260817.html

[892] The Associated Press via Gray Television, August 31, 2026 (the Truth Social post, "let Data Reign", copy at https://www.wtva.com/2026/08/31/trump-defends-data-centers-saying-people-who-oppose-them-will-end-up-backwards-poor/; the vice president's remark; the poll, 46% of the president's supporters in favor of data centers and 80% of liberal voters against).

[893] 24/7 Wall St., September 24, https://haussamen.com/2025/10/12/project-jupiters-big-promises-are-legally-binding/ and https://haussamen.com/wp-content/uploads/2025/10/9.19.25.JupiterIRBOrdinance.pdf. Project Jupiter's county authorization for up to $165 billion of industrial revenue bonds over 30 years, as reported by Heath Haussamen, October 12, 2025.

[894] Bloomberg, September 24, 2026, via CNBC (the notice to Stack Infrastructure, a Blue Owl unit, copy at https://vuink.com/post/paop-d-dpbz/2026/09/24/oracle-data-center-force-majeure-d-dhtml and copy at https://techcrunch.com/2026/09/24/oracle-sends-force-majeure-notice-on-its-new-mexico-stargate-data-center/; the 1,400-acre, 2.45-gigawatt campus); Bloomberg, September 24 (a force majeure finding tied to the power commitments would win a three-year delay on rent when it commences, other costs owed in the interim and the rent for the full term thereafter, copy at https://news.bloomberglaw.com/ip-law/oracle-cites-force-majeure-to-shield-itself-on-big-data-center; the tenant's credit-risk gauge at a record on the 24th); Reuters, September 24 (a source: the lease non-terminable under any circumstances, Blue Owl's $3 billion of

the state's land commissioner had twice refused the gas pipeline a lease across state trust land, and the line's service date had moved from August to the following February.[895] A force majeure clause excuses performance for the disruptive events a contract specifies, the act of God being only the classic case, and the act claimed here was a county's and a commissioner's.

Securing the power was the tenant's own obligation, the lease cannot be terminated, and the notice only stretches the lower development-stage rent while the tenant carries the debt costs on some $18 billion of construction loans from about twenty banks.[896] What the opposition reached was therefore a schedule of payments on a building with no power, its gas pipeline and the air permit for its power plant still unresolved.[897]

The technology writer Edward Ongweso Jr. explains why blocking construction can threaten the investment. The valuation machine requires perpetual buildout, scarcity of

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equity, the debt costs the tenant's, no revenue from the site in fiscal 2027, copy at https://www.marketscreener.com/news/oracle-cites-force-majeure-to-shield-itself-on-data-center-bloomberg-news-reports-ce785adede8cfe2d; payment obligations reportedly continuing under the notice's terms; the $165 billion a thirty-year ceiling with staged investment).

[895] Transwestern's FERC filing of August 17, 2026 (Source NM: the Green Chile line's in-service date moved from August 15, 2026 to February 1, 2027), https://sourcenm.com/2026/08/17/proposed-gas-pipeline-for-project-jupiter-data-center-delayed-to-2027-filings-show/; the New Mexico State Land Office's two denials of the right-of-way across 0.63 miles of state trust land (New Project Media); the attorney general's challenges to the construction-water authorization and the air-permit timetable, and the September 17 lifting of the stays. The refused lease crossed 0.63 miles of state trust land.

[896] The Financial Times, September 2026 (about $18 billion of loans at 89 to 91 cents, the syndicate holding more than planned). The Motley Fool, September 24 (the default swaps at a record), https://www.fool.com/coverage/stock-market-today/2026/09/24/stock-market-today-sept-24-oracle-stock-dips-as-it-issues-force-majeure-notice-on-project-jupiter-data-center/. The project's debt traded under 90 cents, and the tenant's default swaps closed at a record on the day of the notice.

[897] Reuters, September 24, 2026 (power the tenant's responsibility, copy at https://www.marketscreener.com/news/oracle-cites-force-majeure-to-shield-itself-on-data-center-bloomberg-news-reports-ce785adede8cfe2d; no termination; Blue Owl's equity near $3 billion at 9% during development; the development-stage rent extended); Bloomberg, September 24, 2026, as reported by El Paso Matters and the Seoul Economic Daily (a deferral of up to three years, copy at https://news.bloomberglaw.com/ip-law/oracle-cites-force-majeure-to-shield-itself-on-big-data-center and copy at https://borderblogs.com/el-paso-matters-oracle-says-project-jupiter-remains-on-track-despite-power-supply-concerns/; about 20 banks and $18 billion of construction financing; the air permit and the pipeline).

compute against promised abundance is what each funding round is priced on, and a population blocking the gigawatts in the queue is therefore a counterparty to the trade, not an externality of it. The moratoriums are the first case in this cascade of ordinary people acting directly on the assets that back the build-out. Residents and local officials can delay it before a national movement wins any office. Lauesen, following Lenin, would call a politics of blocking a longing for older forms, since the reply to the trusts was socialism and never a return to smaller capital. A movement can go further by claiming control of the capacity whose construction it can block. The survival of buildings and power connections establishes a possibility of reuse. Whether that becomes productive capacity depends on useful workloads, operating costs and the institutions able to organize them. A moratorium can therefore contest additional construction even where some existing capacity is worth preserving, and whether it is emancipatory or exclusionary depends on its demands and alliances.[898]

The same critic names what the deferral apparatus does to the politics it displaces: the J curve converts every political question about the buildout, who controls it, who pays for it, what it is for, into a temporal one, patience as the ideological form of deferral. Inside the trade, the same ethos rewards continued participation and makes candor costly. This is its public face, and the backlash is what its failure looks like from below.[899]

The politics has a bill. On September 3 Senator Bernie Sanders and Representative Greg Casar, chair of the Congressional Progressive Caucus, announced the Ban Artificial Superintelligence Act, a permanent ban on superintelligence and a pause on advanced development until a regulator exists, and they introduced it on September 23. In a Data for Progress poll of September 4 to 9, 68% of likely voters backed it, and 63% of Republicans. Beneath the bill the mood had turned: in Bentley-Gallup polling published on July 29, more Americans than a year earlier said AI does more harm than good.[900] The president's answer at the General Assembly in September was to rename the technology and reject any scheme

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[898] Lauesen, The Long Transition, 317–18, quoting Lenin's citation of Hilferding that the proletariat's reply to finance capital "cannot be free trade, but socialism."

[899] Ongweso, Edward, Jr. "AI Is Failing to Boost Productivity." Interview by Isaac Pound. The Tech Report, Times Radio. YouTube video, August 2026 (podcast release August 27, 2026). https://www.youtube.com/watch?v=UJ_SNBMd6v4

[900] Gallup, "Americans Cool Toward AI" (Bentley University-Gallup Business in Society, July 29, 2026); Gallup, "Americans Aren't Sold on Businesses Using AI in Advertising" (Bentley-Gallup, 2026); Semafor, July 29, 2026 (nearly eight in ten expect fewer jobs, 27% trust businesses to use AI responsibly); Gallup with Microsoft, September 23, 2026 (36% of Americans expect AI to improve their lives); Pew Research Center, September 17, 2026 (34 of 37 countries expecting fewer jobs). In the July 29 survey the share of Americans who say AI does more harm than good rose from 31% to 39% in a year, and to 47% among adults under 30, with 9% saying the reverse, even as the share who say they know it rose to 70%. In the Bentley-Gallup advertising survey, more Americans viewed AI's use in the advertising sold to them negatively than positively, by 49% to 19%.

to control it.[901] I see a possible American form of the socialist branch in a movement that goes from blocking construction to demanding public ownership of the computing capacity. The technology's own critics are already asking what the technology would be for if it were rescued from its financiers, and whether it should be rescued at all.

The program's first demand would be Lenin's of September 1917: that the accounts of large-scale capital, already known to the hundreds of people inside it, be opened to the people it runs on, since commercial secrecy at that scale protects nothing but the concealment of "financial swindles and the fantastically high profits of big capital".[902]

The open tools supply a constructive side to the same struggle. The technology offered to employers as a way to dispense with skilled workers can also give those workers more power to dispense with a software monopolist. A designer who can keep and alter her tools, and programmers who maintain them together, can work without the subscription owner's permission. Their work can remain available for others to improve. The means of making the next alternative become part of what they share.

The ownership question runs through that practice. A cheaper proprietary rival can change who collects the rent while leaving the relation intact. A commons gives others continuing rights to use, alter and share the work, the freedoms around which free software has long organized.[903] Piracy can breach a restriction on access; maintaining a shared alternative can build the capacity to work beyond it. AI-assisted development may widen the number of people able to make that passage.

The fear of owning nothing can be a fear of losing security and control: a home taken away, a tool withdrawn, a fee raised without recourse. Shared provision has to answer that fear by giving people durable rights and a say in how the provision is run.

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[901] Senator Sanders's office, September 3 and 23, 2026 (the Ban Artificial Superintelligence Act); Data for Progress, September 4 to 9, 2026 (68% support, 25% oppose; 72% of Democrats, 70% of independents, 63% of Republicans), and its separate June 2026 survey, which found 63% for a one-year moratorium on new data-center construction; NPR, September 14; the president's address to the 81st General Assembly, September 22, 2026.

[902] Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 6: commercial secrecy in large-scale capitalism is "an instrument exclusively for concealing financial swindles and the fantastically high profits of big capital", the accounts of joint-stock companies "so compiled as to deceive the public".

[903] Open Source Initiative, "The Open Source Definition," https://opensource.org/osd; Free Software Foundation, "What Is Copyleft?," https://www.gnu.org/licenses/copyleft.en.html. Accessed October 11, 2026. Open-source licenses grant rights to use, modify and redistribute; they do not necessarily abolish copyright or establish collective governance. Copyleft uses copyright to preserve specified freedoms in redistribution. The economic comparison concerns common access and the ability to continue the work. Piracy, decompilation and a licensed open-source replacement remain distinct practices.

Maintaining such a commons is already organization. As people divide work, teach newcomers and settle disagreements over what needs repairing, they learn whether they can rely on one another. Where that cooperation lets them withstand an employer's threat or a vendor's withdrawal, it becomes a source of collective power. Class consciousness can develop through discovering that a shared dependence can be confronted together.

Tenants' unions offer another setting in which that discovery can occur. The Los Angeles Tenants Union existed before COVID. During the pandemic it demanded cancellation of accumulated rent debt and organized rent strikes, arguing that temporary protection from eviction left the obligation to pay intact.[904] The experience made a common dependence on landlords into something tenants could contest together. The union's handbook describes organization growing from building associations to neighborhood and citywide bodies.[905]

In August 2024, five local unions launched the Tenant Union Federation, seeking national coordination against landlords whose holdings cross local boundaries. Its demands included treating housing as a public good.[906] This required organizers to keep people together beyond the emergency. The pandemic exposed the conflict; the organization gave tenants a way to act on it after temporary protection ended.

Revolutionary Russia shows how far such bodies can extend their reach. In 1917, the soviets became a rival authority, and proposals for workers' control made elected representatives' decisions binding on owners.[907] A software commons has nothing like that

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[904] Los Angeles Tenants Union. "LATU Rejects Legislative Compromises, Affirms Dual Power." November 18, 2020. https://latenantsunion.medium.com/latu-rejects-legislative-compromises-affirms-dual-power-7c93cd07bb30. Los Angeles Tenants Union. "Affordable Housing Is a Scam." Accessed October 13, 2026. https://latenantsunion.medium.com/affordable-housing-is-a-scam-9a4c43ba8149.

[905] Los Angeles Tenants Union, Tenants Association Handbook (2020), pp. 3–5, copy hosted by the Autonomous Tenants Union Network, https://atun-rsia.org/s/Tenants_Association_Handbook_ENG_V4.pdf.

[906] Tenant Union Federation. Launch announcement. August 6, 2024. https://tenantfederation.org/assets/downloads/2024-aug-launch.pdf. The release names five founding locals; LATU was not one of them.

[907] V. I. Lenin, "The Dual Power," April 9, 1917, in Collected Works, vol. 24 (Moscow: Progress Publishers, 1964), 38–41, https://www.marxists.org/archive/lenin/works/1917/apr/09.htm; Lenin, "Draft Regulations on Workers' Control," written October 26 or 27 (November 8 or 9), 1917, in Collected Works, vol. 26 (Moscow: Progress Publishers, 1972), 264–65, especially clauses 2, 4, 5 and 8, https://www.marxists.org/archive/lenin/works/1917/oct/26.htm. The comparison concerns organization and the extension of collective authority; Lenin's dual power names a rival government, not simply the existence of a cooperative project. The passage identifies capacities that can develop through common work without treating present software communities as equivalents of the soviets.

authority, but the experience of sustaining something useful together and deciding its purposes can be carried into other movements.

Useful software can circulate through this commons while advanced chips, electricity and large computing facilities remain concentrated. Local models loosen that dependence for some work, but larger tasks still require access to those concentrated resources. I see material conditions for socialism emerging here, along with experience of putting them to collective use. But the people maintaining a commons still need homes, care and time. If access to those depends entirely on selling their labor to the firms the commons competes with, their independence remains precarious.[908]

The socialist possibility is to join shared productive capacity to a secure means of sustaining its makers, with workers and users able to decide what gets built and how the work is divided. Climate damage and resource conflict make those decisions more urgent; they do not decide who will hold the power. A state can plan for accumulation or war. The case for socialist planning is that people should have the means to direct production toward the lives they need to sustain, including needs that do not offer a profitable market.[909]

On capacity

The capacity register is where the record turns cautionary, and the following cases show how capital answered elected socialists: Mitterrand held a parliamentary majority and a real program and was broken by capital flight inside three years. Syriza was broken in five months without a soldier, by a liquidity switch. Every municipal socialism has met the bond ceiling, and offices without social power meet a Treasury market that can raise the price of their program. Beijing faced the same weapon and moved against capital flight in May. The contrast is between a state able to restrict capital's exit and one whose program can be vetoed by it.

Absorption, folding a movement's leaders and demands into existing institutions, has often required material concessions. The New Deal gave industrial unions a legal foothold. The postwar settlement gave many members wage gains and benefits, as the United Auto Workers' 1950 agreement with General Motors did in return for a long contract and

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[908] Open Source Initiative, The Open Source AI Definition, version 1.0, https://opensource.org/ai/open-source-ai-definition, accessed October 11, 2026. The definition requires freedoms to use, study, modify and share, together with model parameters, the relevant code and sufficient information about training data. Releasing weights is not by itself the same as meeting those requirements. The political argument here is this work's inference from the software examples and the infrastructure constraints already examined.

[909] Nancy Fraser, Contradictions of Capital and Care, New Left Review 100, July–August 2016, pp 99–117, https://newleftreview.org/issues/ii100/articles/nancy-fraser-contradictions-of-capital-and-care. The application to software commons is the author's argument.

management control.[910] In Argentina after 2001, government resources helped draw parts of the piquetero movement into the state's orbit.[911] A state inside the doom loop has less room to make such concessions, and absorption running on symbolism alone is running on fumes.

The state's surgical alternative is prosecution, legal action for which officials are assembling a stated basis. This work's forecast is that it may deliver what a decade of debates over breaking with the Democratic Party could not, since prosecution would force the separation of socialists from Democrats that sharing the Democratic ballot line defers. That is one possible route to a separate party, and party formation does not depend on it. The Tsar's police did more to define Bolshevism than the congresses did.

The sequence problem remains the hard term. The Bolsheviks did not create the soviets, they won them, and social power preceded its articulation. The present wave runs inverted: the offices are ahead of the strike capacity, which is now being deliberately manufactured toward the aligned contract expirations of May 2028, the date the United Auto Workers asked other unions to match after its 2023 strike.[912] Compression cuts this direction too: the fuze is dated in months and organization is built in years. But crisis compresses the building as well as the time to build. The Congress of Industrial Organizations organized millions in two years, the Flint sit-down strike of 1936 and 1937 took 44 days, and the mass party of 1917 was mostly assembled inside 1917, consolidating at crisis speed onto a pre-built skeleton.

Breadth demonstrably compresses. Whether depth does, whether the skeleton of cadre, program and infrastructure has reached the minimum from which crisis-speed growth consolidates instead of dissipating, Russia's 1917 and not Argentina's 2001, is the question on which the articulation contest turns. The outcome remains open because people still have choices to make. The continuation of the present order as it is now is the least likely outcome. It remains possible if productivity and financing restore accumulation without destroying the demand on which it depends. The openness lives between the branches, and the subjective factor is decisive now, which was always the operational content of the word Leninism. Plekhanov warned against power taken ahead of the class's capacity, and the core's left now runs a related risk: winning office before building the organized power needed to carry out the program. The remedy he gave in 1883 is the one the sequence needs: only by going through the hard school of the struggle for separate little pieces of

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[910] MotorCities National Heritage Area. "1950." Making Tracks. Account of the UAW–General Motors agreement. https://motorcities.org/making-tracks/1950/

[911] Epstein, Edward C. "Perpetuating Social Movements amid Declining Opportunity: The Survival Strategies of Two Argentine Piquetero Groups." European Review of Latin American and Caribbean Studies 86 (April 2009): 3–19. https://pdfs.semanticscholar.org/c583/12d01c587e796faf583782bf30b2da68e96a.pdf See pp. 6–7 and 9–10.

[912] United Auto Workers. "May Day 2028." https://may1.uaw.org/

enemy territory does a class acquire the persistence and the development necessary for the decisive battle.[913]

On the left's China readings

The Whig liberal teleology and the stagist Marxism that has dominated Western academic Marxism since the 1920s converge on the same misreading of China. Both traditions assume a unilinear developmental sequence with bourgeois democracy as the necessary midpoint: Whig liberalism celebrating this sequence as progress, stagist Marxism mourning it as the inescapable detour to actual socialist development.

The institutional consequence is that the two frames that dominate American analysis in 2026 do not explain what is happening: neither supplies a mechanism for how China bypassed the midpoint and became the productive center of the global system. The Whig liberal frame requires Chinese success to be temporary, fraudulent, or imposed through coercion, because the center's legitimacy comes from the proposition that liberal democracy under American hegemony is the most competent political and economic form available, and admitting that Beijing runs a more competent state would undercut it. The stagist Marxist frame requires the Chinese synthesis to be impossible or fraudulent, because admitting that it works would require revising the stagist conception that says China has not truly had a bourgeois development phase. The dissidents on both flanks have escaped these prohibitions, which is what makes them dissidents. On this work's reading, the United States is itself drifting toward the political capitalism it long attributed to China. The government has taken an equity stake in Intel and demanded a share of revenue from licensed chip sales to China. In July, the Financial Times reported that OpenAI had proposed giving the government a 5% stake.[914]

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[913] G. V. Plekhanov, Socialism and the Political Struggle (1883), chapter II.

[914] The Financial Times, July 2, 2026, citing two people familiar with the discussions, as reported by Jose Antonio Lanz, Decrypt, July 2, 2026 (OpenAI's proposal, raised by Sam Altman with the president, the commerce secretary and the Treasury secretary, to give the government a 5% stake, about $42.6 billion at the $852 billion valuation of March on Decrypt's arithmetic, with other leading developers invited to do the same; the government's 9.9% stake in Intel of August 2025, and the 15% of China chip revenue AMD and Nvidia agreed to give up for export licenses), https://decrypt.co/372715/openai-offers-us-government-42-billion-slice, and by AFP via Al Arabiya English, July 2, 2026 (the company seeking to smooth relations with the Trump administration; talks at an early stage), https://english.alarabiya.net/business/technology/2026/07/02/openai-discusses-giving-us-government-5-pct-stake-report. Primary-source distinctions: Intel's August 22, 2025 announcement and fiscal-2025 Form 10-K document the equity agreement and funding/escrow arrangements. https://www.intel.com/content/www/us/en/newsroom/news/corporate/intel-and-trump-administration-reach-historic-agreement.html https://www.sec.gov/Archives/edgar/data/50863/000005086326000011/intc-20251227.htm NVIDIA's fiscal-2026 Form 10-K describes officials' expected revenue share and the absence of a codifying regulation; this is not evidence that the payment was received.

One part of the Marxist left sees China as a fellow socialist project. For the national-conservative right, China is a model of state-directed developmentalism. The accelerationist right reads China as post-democratic governance that works. The Pentagon strategic class regards China as the model of national strategic capacity. The social democratic left aligns analytically through shared categories without explicit political endorsement. All of these factions disagree violently with each other about what to do with the recognition.

The MAGA pipeline is the alternative articulation absorbing the same recognition through different infrastructure: the Trump second term and the Stephen Miller institutional consolidation. Vance's industrial policy speeches read like translations from Chinese five-year plan documents, with the explicit Marxism stripped out and Catholic social teaching grafted on. Saagar Enjeti, co-host of the Breaking Points podcast, admires Chinese productive capacity, and Curtis Yarvin, the neo-reactionary writer who argues for replacing democracy with a chief executive's rule, admires Chinese governance. The fascist articulation borrows the developmentalist content while keeping the imperial-racial frame. That frame is older than the pipeline. Lauesen traces the racial stratification of the American working class to the settler colony. He argues that racial and imperial advantages can lead core workers under pressure to defend a privileged national position, the imperial mode of living, which is the strongest case against reading the articulation contest from material conditions alone.[915] Both pipelines are doing their work on the same material ground, with the same proof of concept on the table.

The articulation forming through this break isn't the exact 1917 Bolshevik formation, nor should it be, and it doesn't need to be. The technical-material infrastructure is different, and The German Ideology defines communism as a movement: "Communism is for us not a state of affairs which is to be established, an ideal to which reality will have to adjust itself. We call communism the real movement which abolishes the present state of things."[916]

On the evidence

The evidence shows anti-establishment volatility, and it runs in more than one direction. On the right: Trump's victories in 2016 and 2024, Britain's vote to leave the European Union, the national right's advance in France, Germany and the Netherlands, and its arrival

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https://www.sec.gov/Archives/edgar/data/1045810/000104581026000021/nvda-20260125.htm Its July 26, 2026 Form 10-Q describes a separate H200 import tariff. https://www.sec.gov/Archives/edgar/data/1045810/000104581026000075/nvda-20260726.htm

[915] Lauesen, The Long Transition, 76–82 and 361. Lauesen develops the argument after J. Sakai and Gerald Horne.

[916] Marx, Karl, and Friedrich Engels. The German Ideology. 1846. Moscow: Progress Publishers, 1968. Free online text: https://www.marxists.org/archive/marx/works/1845/german-ideology/index.htm Part I, "Feuerbach."

in government in Italy. On the left: Zohran Mamdani's election as mayor of New York City as a self-identified democratic socialist on an affordability platform, Sanders's continued mass appeal, the electoral apparatus aligned with the Democratic Socialists of America and the Squad, and the streamer ecosystem's penetration into electoral politics. In international alignment: the expansion of BRICS, and the collapse of the liberal Atlanticist consensus among under-30s after October 7. That recognition has produced the largest sustained anti-establishment political energy since the 1970s, in both directions. Whether that energy routes into Marxist, fascist, accelerationist or national-developmentalist forms is the live question the rupture phase resolves.

Selection has moved out of the apparatus and the apparatus has said so. In Michigan's primary of August 4, 2026 the Senate nomination went to Abdul El-Sayed, an epidemiologist running on universal healthcare and a billionaire wealth tax, over Haley Stevens, the leadership's candidate, against about $65 million of outside money.[917] Within a day Stevens had conceded, the leadership that had backed her coalesced behind him, and the former vice president was raising money for him. Unelectability had been the whole argument until the vote. The apparatus answered with a week of coverage of a streamer who had endorsed him, which the journalist Ken Klippenstein read correctly as a proxy war on a nominee the party could not attack directly. The admission came from Jen Psaki, the former White House press secretary turned MS NOW host, discussing the year's primaries:[918] party leadership used to select the nominees, would put money behind them and endorse, and now leaders pushing a nominee is a negative in many races.

The apparatus built to treat foreign threats, the surveillance, the immigration police, the militarized departments, the facial recognition, the predictive policing, was by 2026 being administered at home. It had not run out of foreign targets, since the foreign threats are real. What has broken is the regulatory function that distinguishes self from non-self, the late stage of the infection diagnosed in Part Two. A healthy immune system fights the pathogen and leaves the tissue. This one attacks the tissue and calls it the pathogen. In Operation Metro Surge, from December 2025, about 3,000 agents of Immigration and Customs Enforcement and Customs and Border Protection were sent into Minneapolis and

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[917] Associated Press and NBC News, August 5, 2026: El-Sayed 48.5% to Stevens 47.5 on August 4, against about $65 million of outside money and Whitmer's late-July endorsement, copy at https://michiganadvance.com/2026/08/05/michigans-democratic-u-s-senate-primary-too-close-to-call/ and copy at https://www.nbcnews.com/politics/2026-election/abdul-el-sayed-wins-michigans-democratic-senate-primary-notching-midwe-rcna589750; McKinney over Thanedar in the 13th district. NBC News, August 5, 2026 (nearly $65 million of outside money; Whitmer's endorsement of July 24), copy at https://www.nbcwashington.com/news/national-international/abdul-el-sayed-wins-michigan-democratic-senate-primary/4138625/; AP, August 5, 2026 (Stevens's concession call that morning, per El-Sayed's campaign).

[918] Jen Psaki, The Briefing with Jen Psaki, MS NOW, August 11, 2026, released as the podcast episode "Midterm primaries pit the establishment against outsiders", August 12, 2026, https://podcasts.apple.com/us/podcast/midterm-primaries-pit-the-establishment-against/id1692806415?i=1000782884515.

Saint Paul, and federal agents shot and killed two citizens there, Renee Good on January 7, 2026 and Alex Pretti on January 24. On February 12 the White House border czar, Tom Homan, announced that the surge was ending.[919] The deployment collapsed because the coercion was self-defeating, and its withdrawal from one metropolitan area left the wider enforcement apparatus in place and still growing.

Nor does the Minnesota record support the assumption that the apparatus holds: turned on citizens, the deportation apparatus produced dead citizens, mass mobilization, and retreat. The capacities already demonstrated on the other side are more than scattered acts. They include successive nationwide mobilizations, with the March 28 No Kings protests producing the largest single-day count of demonstrations in ACLED's U.S. record, which begins in 2020.[920] They include distributed sabotage aimed with discrimination at the enforcement layer's sensory organs, the license-plate camera networks:[921] the Luddite inheritance properly understood, collective bargaining by riot against the machinery of discipline. And they include a localized veto movement whose material target is the buildout itself, blocking sitings at the substation and the water permit, the realization crisis acquiring a political wing that fights the circuit at the point of constant capital.

What the episodes have not yet demonstrated is duration: organizations able to keep members, coordinate action and hold power. Watch the aligned contract expirations of May 2028. Watch whether the groups contesting data-center sites remain separate campaigns or build a lasting federation, and whether tenants' unions keep adding members.

Anger can expose a loss of legitimacy without producing an institution that can replace what failed. The question is whether people can turn a shared grievance into lasting power over care, housing and work. Destruction by itself cannot supply those things.

This is also where Lauesen's objection to watching the North applies. He holds that the transition will be driven from the Global South, and that reforms won in the North are parasitic unless they also take apart the imperial transfers the North lives on.[922] The May 2028 test can bear him out: coalitions that win severally, a better local bargain on power

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[919] Vue, Katelyn. "Border Czar Says Immigration Operation in Minnesota Will End Soon." Sahan Journal, February 12, 2026. https://sahanjournal.com/immigration/border-czar-tom-homan-minnesota-ice-operation-metro-surge-ending/.

[920] ACLED. "United States and Canada Overview: April 2026." https://acleddata.com/update/united-states-and-canada-overview-april-2026 This record counts demonstration events, not individual participants.

[921] NPR. "Amid intense backlash, people are vandalizing Flock surveillance cameras." August 21, 2026, republished by Oregon Public Broadcasting. https://www.opb.org/article/2026/08/21/resistance-to-police-surveillance-tech-like-flock-cameras-grows/ The report reviews incidents in at least 36 states. Reading these disparate acts as a Luddite inheritance is the author's interpretation.

[922] Lauesen, The Long Transition Towards Socialism and the End of Capitalism (2024), 350, 353, 357 and 359.

and water, would do so. A federation would not refute him, because federation shows organization and his objection concerns direction. Coalitions that federate against the build-out would be the first standing form in the North aimed at the circuit, and their direction would show separately, in whether they take positions on the war, the munitions requests and the sanctions. Material pressure can produce solidarity across borders, but it can also produce demands to restore a privileged national position; organization helps determine which response prevails.

The most effective demobilizing treatment is the channeling of political energy into an electoral cycle that structurally cannot produce the outcomes it promises. The pipeline runs with mechanical reliability: a figure with structural analysis and popular energy emerges. The figure enters the electoral system. The system crushes them, party officials favoring Clinton in 2016[923] and establishment Democrats rallying behind Biden against Sanders before Super Tuesday in 2020[924], or co-opts them, the abolitionist who ends up voting for the interceptors, or subjects them to structural impossibility, the democratic-socialist mayor inaugurated on January 1, 2026 and within six months governing inside a fiscal envelope written in Albany and Washington.[925] Each outcome degrades the one resource that could enable an adaptive response, organized collective agency, which makes the Michigan result an admission of the apparatus's failure, without showing how electoral victory can repair it.

On the guard

The enforcement apparatus has a labor history, and the machine is meant to close it. Bowles and Jayadev called it guard labor, the work of enforcing claims and not producing goods: the police, the guards, the soldiers, the prison staff and the supervisors. On their broadest count, an analytical measure wider than a headcount of those occupations and applied alike to both years, it rose from about 6% of the American workforce in 1890 to about a quarter in 2002, rising with inequality across states and countries. Its weakness has always been that it is labor. Petrograd fell in February 1917 when the garrison would not fire, the Shah's high command declared the army neutral in February 1979, and the coup of August 1991 failed when the units sent into Moscow would not move against the

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[923] Thomas, Ken, and Catherine Lucey. "Hacked Emails Complicate Democratic National Convention; DNC Chair Resigns." Associated Press, July 24, 2016. KSL republication. https://www.ksl.com/article/40785880

[924] Associated Press. "Klobuchar, Buttigieg Endorse Biden on Eve of Super Tuesday." March 2, 2020. PBS NewsHour republication. https://www.pbs.org/newshour/politics/klobuchar-buttigieg-endorse-biden-on-eve-of-super-tuesday

[925] New York City, Mayor's Office. "Transcript: Mayor Zohran Mamdani Releases $124.7 Billion Executive Budget for Fiscal Year 2027." May 2026. https://www.nyc.gov/mayors-office/news/2026/05/transcript--mayor-zohran-mamdani-releases--124-7-billion-executi The mayor describes the budget gap, state negotiations, new revenues and savings. The conclusion about the limits of electoral office is the author's.

crowd. The build-out makes the same promise to the state that it makes to the employer, labor without the capacity to refuse, and in enforcement the promise is the removal of the oldest brake on repression.[926]

The commentary assigns the temptation to the autocracies. Foreign Affairs ran an essay in October on the AI autocrat: Beijing, Moscow and the Emirates replacing censors and officials with systems and discovering a new praetorian guard in the engineers who keep them running, an inner group whose control over the ruler's protection gives it political leverage. The essay was illustrated with a demonstration of AI surveillance in Phoenix. The incumbent's own documented purchases show it on the same course, and it is doing both things at once. It is hiring guards on a scale no other agency has, ten thousand deportation officers funded by the law of July 2025 with signing bonuses of up to $50,000, and buying the systems meant to make them unnecessary, a $30 million platform to track and target people for deportation, facial recognition, iris-scanning phones. Its authors worry about the few engineers. The danger they do not name is the many the systems would no longer need, whose refusal used to end regimes.[927]

The refusal has not vanished. It has moved to the few who build the machines, and it has been routed around. In 2018 more than 4,600 Google employees signed a petition against Project Maven, the Pentagon's program to read drone footage by machine, at least a dozen resigned, and the company let the contract lapse in 2019. The program continued with other suppliers. Bloomberg's account of the Minab strike identified Palantir's Maven Smart System in the targeting process, an account Sankar disputes.[928] The guard who would not fire was the brake of the last century. The engineer who will not build is this one's, and the incumbent has learned to buy from the one who will.[929]

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[926] Arjun Jayadev and Samuel Bowles, "Guard Labor", Journal of Development Economics 79, no. 2 (2006), and "One Nation Under Guard", The New York Times, February 15, 2014, copy at https://doi.org/10.1016/j.jdeveco.2006.01.009.

[927] Seva Gunitsky and Bruce Schneier, "The AI Autocrat", Foreign Affairs, October 1, 2026; the One Big Beautiful Bill Act, July 4, 2025 ($75 billion for ICE; nearly $30 billion for hiring and retention toward 10,000 officers), as reported by CBS News, July 2025, and Reason, 2026 (signing bonuses up to $50,000; Clearview AI, $3.75 million; iris-scanning phones, $4.6 million); ICE's contract with Palantir for ImmigrationOS, April 2025 ($29.9 million; Wired, April 18, 2025).

[928] CBS News. "Transcript: Shyam Sankar, Palantir Chief Technology Officer, on Face the Nation." Face the Nation, October 11, 2026. https://www.cbsnews.com/news/shyam-sankar-chief-technology-officer-palantir-face-the-nation-transcript-10-11-2026/ For the reporting disputed: Bloomberg, September 18 and 22, 2026, https://www.bloomberg.com/graphics/2026-iran-school-attack/ and https://www.bloomberg.com/news/articles/2026-09-22/us-military-modifies-ai-combat-targeting-after-iran-minab-school-strike.

[929] Reuters, June 1, 2018, as carried by Arab News (more than 4,600 signatures, copy at https://www.arabnews.com/media/google-to-scrub-us-military-deal-protested-by-

Plekhanov stated the rule for a ruling class in the centenary year of its own revolution: it keeps to lawfulness while history has secured its triumph in the economy, and it turns the more readily to force the smaller its chances of keeping its place. A department that names its policy maximum lethality, not tepid legality, and a state that hires ten thousand deportation officers while cutting the people whose work was to check its strikes are the rule's second half, and the forces that make them necessary are the ones this work has counted.[930]

The same promise runs through every domain this work has measured. In production it is the cut announced in the machine's name, in the household the worker's life made an open book, in enforcement the guard who need not be asked, and in war the reviewer cut from ten to one. In each the promise removes the capacity to refuse, which every class has held against the one above it: the strike, the mutiny, the refusal to fire. The empire's rents, which once bought the upper stratum Engels named, now buy two, the engineers who build the machines, paid in shares, and the guards hired with signing bonuses to stand where the machines cannot yet. Whether anything after religion, dynasty, the nation and ideology can bind a coalition across nations turns on whether people can preserve the capacity to refuse and build the means to act together. Indispensable labor still has a veto. Shared tools can widen the capacity to organize production beyond those few, if their makers and users can secure the resources to sustain them.

On the missing enemy

A structural reading of the articulation contest requires accounting for what the right's articulation needs in order to win. Twentieth-century fascist victories succeeded as counter-revolution against actual revolutionary threats. Italian fascism crystallized 1919 to 1922 against Italy's two years of strikes and factory occupations after the First World War, and against the size and growth of the Italian Socialist Party. Mussolini's movement was backed by industrialists who watched Turin and concluded the alternative was Bolshevism. German Nazism rose against the November Revolution, the Spartacist uprising, the Bavarian Soviet Republic, and the Communist Party of Germany as a working political force whose vote share was real and growing. Spanish Falangism crystallized against the Republic, the anti-Stalinist Marxist POUM, the anarchist union CNT, and the Asturian miners. Each fascist articulation gathered force because the revolutionary alternative had been real within memory, and the fear of it outlived the threat. That concrete enemy gave the fascist articulation its totalizing legitimacy.[931]

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employees-source-1314041; at least 13 resignations; the contract to lapse in March 2019); Gizmodo and The Intercept, 2018 to 2019, https://gizmodo.com/in-reversal-google-says-its-ai-will-not-be-used-for-we-1826649327 and https://gizmodo.com/gig-workers-unknowingly-helped-google-and-the-pentagon-1832340422.

[930] G. V. Plekhanov, "Wie die Bourgeoisie ihrer Revolution gedenkt", Die Neue Zeit, 1890–91, translated as The Bourgeois Revolution: The Political Birth of Capitalism ("The bourgeoisie strove for lawfulness in politics, because historic evolution had fully secured its triumph in economics").

The current configuration is the structural inverse. Biden and Obama operated within neoliberal parameters, the Democratic Socialists of America reports over 100,000 members, the sitting Squad numbered seven members of Congress out of 535 in June 2026,[932] and Mamdani is one mayor. The right-populist articulation has captured the executive, the legislative majorities, the judiciary, and 40 years of pre-positioned cadre. The "communist" enemy MAGA performs against is phantasmal, sustained through media circuits and not through working political reality. The name the academy has found for the present, neoliberal fascism, is on this work's definition a contradiction in terms. The definition is contested. It takes fascism to be the state's seizure of capital and labor both for the nation's war, raised against a revolution it could point to. It gives counter-revolution against an organized left special weight because the twentieth-century cases drew their totalizing legitimacy from that fear. What the core has, on that definition, is the market's rule defended by force against a class too weak to threaten it, Bonapartism with a balance sheet.

Classical counter-revolution required a revolution to oppose. Without one, the right's articulation cannot easily extract from MAGA's failures the totalizing legitimacy fascism extracted from the Bolshevik threat. When MAGA fails, the failure cannot be pinned on communists in power, because none hold power. It can still be pinned on an imagined or defeated enemy, and repression can still last, but the charge lacks a referent that holds power.[933]

The right's missing enemy is a window, and the left's own success closes it. Each nomination won gives the performance a referent, and the state is already building one in the plot it alleges and the prosecutions it prepares. The precedents needed no more than that: Mussolini took office two years after the factory occupations were beaten, on a fear kept alive in print. The right's weakness holds for as long as the enemy stays phantasmal, which is as long as the left stays small.

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[931] Paxton, Robert O. The Anatomy of Fascism. New York: Alfred A. Knopf, 2004.

[932] Democratic Socialists of America. "Who we are." Accessed October 12, 2026. https://www.dsausa.org/ ; Boston Democratic Socialists of America. "Announcing Issue 8: DSA at 100K." May 1, 2026. https://bostondsa.org/2026/05/01/announcing-issue-8-dsa-at-100k/ ; Commercial Real Estate Finance Council. "Mamdani-Endorsed Congressional Candidates Triumph in Primaries." June 30, 2026. https://www.crefc.org/cre/content/News/Items/advocacy-items/2026/Mamdani_Endorsed_Congressional_Candidates_Triumph_in_Primaries.aspx The Squad is an informal grouping; primary winners are not counted as seated members.

[933] Democratic Socialists of America membership statement, 2026; the national polling of May 2026.

The evidence of the past year is consistent with a right that has no revolution to point to.[934] At the ballot box, on November 4, 2025, Abigail Spanberger and Mikie Sherrill won the governorships of Virginia and New Jersey by margins larger than expected, and Democrats won a New Jersey Assembly supermajority and expanded their majority in the Virginia House of Delegates.[935] Self-identified democratic socialists won on affordability platforms. The unifying theme is material cost.[936] The Trump administration's response has been mid-decade redistricting for partisan gain, prosecution of political opponents, and revisions to

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[934] On the May 2026 polling: the New York Times/Siena College poll of mid-May 2026 (approval 37%, disapproval 59%; Democrats ahead by 11 points among registered voters on the generic ballot), as reported by G. Elliott Morris, Strength In Numbers, May 19, 2026, https://www.gelliottmorris.com/p/2026-05-19-indies-nonvoters-turned-on-trump; Strength In Numbers/Verasight, May 18 to 19, 2026, 1,520 adults (37% approval, 60% disapproval; the generic ballot 51% to 41% among all adults and 51% to 43% among registered voters), https://www.gelliottmorris.com/p/2026-05-26-may-strength-in-numbers-verasight-poll; the Fox News poll of April 17 to 20, 2026 (Democrats preferred on the economy, 52% to 48%, their first lead on the question since May 2010), as reported by Sarah Fortinsky, NewsNation and The Hill, April 28, 2026, https://www.newsnationnow.com/politics/democrats-economy-midterms/amp/.

[935] The elections of November 4, 2025: Virginia Department of Elections, official results, https://enr.elections.virginia.gov/results/public/virginia/2025-November-General, with the certified totals as reported by Cville Right Now, December 2, 2025 (Spanberger 1,976,857 votes, 57.6%, against Earle-Sears's 1,449,586, a margin of about 15.4 points; Democrats up 13 seats in the House of Delegates), https://cvillerightnow.com/news/208802-virginia-election-results-certified-spanberger-defeated-earle-sears-by-over-520000-votes/; 270toWin, final polling average of nine polls taken October 27 to November 3, 2025 (Spanberger 53.3% to 43.1%, a margin of 10.2 points), https://www.270towin.com/2025-governor-polls/virginia; New Jersey Division of Elections, official general election results, certified December 3, 2025 (Sherrill 1,896,610 votes, 56.88%, against Ciattarelli's 1,417,705, 42.52%), https://www.nj.gov/state/elections/assets/pdf/election-results/2025/2025-official-general-results-governor.pdf, and for the General Assembly (Democrats elected to 57 of the 80 seats, against 52 in 2023), https://www.nj.gov/state/elections/assets/pdf/election-results/2025/2025-official-general-results-general-assembly.pdf and https://www.nj.gov/state/elections/assets/pdf/election-results/2023/2023-official-general-results-general-assembly.pdf.

[936] On the special elections: Joseph Ax, Reuters, October 8, 2025, on The Downballot's count (Democrats running ahead of the 2024 presidential margin by an average of more than 15 points across 42 legislative and congressional specials in 2025), copy at https://gazette.com/?p=1485310; Philip Bump, December 3, 2025 (the five House specials of 2025 shifting 16 points toward the Democrat, 17 against Harris's showing), https://www.pbump.net/o/the-leftward-shifts-in-special-elections-are-happening-in-higher-turnout-races-too/.

voting methods and rules. These are the moves of a regime that does not believe it can sustain its position by the means previously sufficient.

The evidence approaches what Lenin in 1915 named a revolutionary situation, and the part of it that counts is outside the ballot: the regime's turn to coercion, and the population's answer in the streets and at the substation. In The Collapse of the Second International, Lenin specified the symptoms: the ruling classes cannot maintain their rule in the old way, the suffering and want of the oppressed classes have grown more acute than usual, the activity of the masses has substantially increased. The lower classes must also refuse to live in the old way. Even with all these conditions present, a workers' revolution requires an organized, class-aware political vehicle able to turn the crisis into collective action.[937]

Without an equivalent of the Bolshevik threat to legitimate its repressive turn, the right's articulation in this phase is weaker than its twentieth-century antecedents. The Marxist articulation does not hold the state, raging against "woke centrism" and identity politics aside. It is, however, the articulation toward which the failures accumulating under MAGA are structurally tilting. The center cannot route the failures because the center is what produced MAGA and failed to stop it twice. The class frame, forced by the material conditions of the Iran War and the AI capex explosions, opens the space. A program that protects asset values while living costs rise has difficulty retaining the people whose support it needs. The political contest is over which movement can connect those grievances to a shared account of the crisis and an organization capable of acting on it.

The history in Part One says what a New Deal requires. It requires a threat that makes concession the cheaper course, and it requires idle factories for the concession to set to work. The core today has neither. The right's missing enemy and the left's missing organization are the same absence seen from two sides, and the factory floor is across the Pacific. Reform is the one way out that people can reopen, and they would have to build both conditions themselves.

On consolidation

The crisis demands capacities it has already destroyed. An effective response to the convergence would require cross-domain coordination, the unified direction of military, industrial, financial, and diplomatic instruments toward one objective; long-horizon planning that overrides market signals; state direction of industrial capacity; and a political class capable of subordinating faction to survival. Socialist and fascist projects have both claimed that liberal capitalism cannot provide the coordination such a crisis requires. State direction alone does not distinguish them. The question is whether workers gain power over production and its purposes, or whether coercive coordination preserves the owners' command and subordinates labor to it.

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[937] Lenin, V. I. "The Collapse of the Second International." 1915. In Collected Works, vol. 21, 205–59. Moscow: Progress Publishers, 1964. Free online text: https://www.marxists.org/archive/lenin/works/1915/csi/index.htm Chapter II.

Twentieth-century fascism consolidated under conditions that legitimated discipline: depression the existing regime visibly could not solve, war that channeled discipline into national project, fear of revolution that gave repression a concrete referent. None of those inputs is running in the current configuration in the same direction. The material conditions delegitimize the regime in the experience of its loyal coalition. The war is producing the cardiac event the framework cannot reverse and that the population reads as more harm than good. The corporate earnings calls describe severe strain among some customer groups, at times in terms recalling 2008. The polls and elections of 2025 and 2026 are the recognition surfacing in the demographic the consolidation requires to absorb its own decline.

Among the ways authoritarian consolidation through material crisis has been paid for, two stand out: a sponsor, as with Pinochet, the Argentine junta and the Brazilian generals, or a siege that made privation read as loyalty, as in Tehran, Havana and Pyongyang. The United States has no sponsor, and a hegemon that started its own war must persuade the coalition paying for it that the war is a siege. The cases with neither, Tsarist Russia, the late *ancien régime*, the Soviet late stage, ended through the breakdown the consolidation was supposed to manage, and they are the incumbent's nearest precedents. I judge an authoritarian consolidation vulnerable because suppression consumes political authority while material conditions erode. Selective protection of a governing coalition, exclusion of opponents and continued access to foreign production could sustain it. Its duration depends on whether those arrangements renew the resources and political control they consume.

The skeptical objection runs that there is no organized left to absorb the recognition. It cites the same institutional facts the structural reading used and treats them as evidence that Marxist articulation cannot organize against the consolidation. Americans, the objection continues, hate communism on Cold War conditioning that runs deep. Occupy in 2011 produced a moment of recognition the system absorbed and the moment passed. The objection requires that 2026 be structurally indistinguishable from 2011.

The structural conditions have moved. The 2011 system had recovery mechanisms that delegitimized the Occupy critique by appearing to work. Quantitative easing could still inflate asset prices without triggering the inflation that would expose the hollowed economy. The one wage gain the bottom has had in 40 years arrived without a union, in a labor market that briefly ran short of hands, and left no institution behind to hold it.[938] That is the gap between the 71% of Americans who approved of labor unions in Gallup's August 2026 poll and the 10% of wage and salary workers who were union members in 2025.[939]

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[938] Autor, Dube and McGrew, "The Unexpected Compression," NBER Working Paper 31010 (2023), on competition among employers rather than organization as the mechanism.

[939] Gallup, Labor Day polling, 2024 (70% approval), 2025 (68%) and August 3 to 24, 2026 (71%, tying 2022 and the highest since 1959; 52% of Republicans; a record 47% wanting unions to have more influence); Bureau of Labor Statistics, Union Members 2025, February 18, 2026 (10.0% in 2025 after 9.9% in 2024, the private sector 5.9%, food services 1.8%), https://www.bls.gov/news.release/union2.nr0.htm.

The gain is being repriced now at a diesel pump that passed $6 a gallon in September, the inflation 2011 never had.[940]

The material dividend was still partially paid through cheap consumer goods imported from China that the imperial framework was still capturing surplus from. Capitalism was visibly the only game globally. China had not yet completed the productive base that makes the empirical comparison legible. The anti-communist taboo was anchored in material delivery, because anti-communism functioned as national pride exactly to the degree that capitalism was visibly providing what an American population could recognize as winning. By 2026 each condition has reversed. The state's bid to renew the dividend in cash was refused on sight. On September 9 the president promised every adult a $5,000 dividend if both chambers were returned, some $1.3 trillion at the adult count against a deficit already near two trillion. Of the public polled, 63% called the offer inappropriate, four Republicans in ten among them, and the same poll gave the opposition its widest lead of the term on the generic ballot and, for the first time in a decade, the edge on the economy.[941] The Chinese productive base is empirically visible across the commodity chains the AI buildout depends on. Mamdani winning is the visible signal that the taboo has weakened in the demographics that will increasingly decide national elections.

This structural argument forecloses classical fascist consolidation on that model's own terms. The harder case for the authoritarian branch's durability is 21st-century Orbanization, the post-Soviet/post-socialist personalist-authoritarian form pioneered by Putin from 2000, consolidated by Orbán from 2010, replicated by Erdoğan, Modi, Bolsonaro, the PiS government in Poland, and Vučić in Serbia. In this form the authoritarian branch doesn't need a powerful revolutionary left to oppose, because it doesn't require totalizing legitimacy. It works through two mechanisms classical fascism did not depend on: constitutional rewrite that locks in minoritarian advantage under legal cover, and oligarch-financed media capture that creates the information environment in which the regime's framing dominates. Both move incrementally, both stay inside legal form, and together they displace the political contest from material conditions onto ethnic-cultural register. The result is a regime that can absorb extended material decline by transferring the conflict away from the material conditions it cannot improve.[942]

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[940] Energy Information Administration, weekly retail diesel, September 14, 2026 ($6.285 a gallon, the first national average above $6, California $8.04), and the national average past $6.50 reported September 21 and 22, 2026, https://www.eia.gov/dnav/pet/PET_PRI_GND_A_EPD2D_PTE_DPGAL_W.htm.

[941] The Republican midterm convention, Dallas, September 9, 2026 (States Newsroom, September 10); Reuters/Ipsos, September 11 to 14, 2026, 1,143 adults (63% calling the offer inappropriate, four in ten Republicans, copy at https://www.ipsos.com/en-us/reutersipsos-september-2026-survey; the generic ballot 44 to 37; the economy edge, the first in a decade); the $1.3 trillion is $5,000 on a Census adult count near 262 million.

[942] Levitsky, Steven, and Lucan A. Way. Competitive Authoritarianism: Hybrid Regimes after the Cold War. Cambridge: Cambridge University Press, 2010.

The Hungarian election of April 12, 2026 was the test of that durability. Péter Magyar's Tisza party defeated Orbán with a two-thirds supermajority and the highest turnout in the country's democratic history.[943] The campaign refused the regime's preferred terrain of Ukraine, Brussels and sovereignty, and answered on prices, wages and the felt experience of decline. The model named in fifteen years of Western writing as the durable form of illiberal consolidation lost office in a single election, after sixteen years in power, under sustained material pressure.

Hungary fell under particular institutional and economic conditions that the American case does not share: small economy, deep EU embedding, regime-aligned stance on Russia colliding with the Iran war's politics. The American configuration is being attempted under more hostile conditions than Hungary faced, against institutional counter-power that is more substantial in starting density but being dismantled more aggressively, and with a coalition whose loyalty was conditional on the bargain the regime's own war is incinerating. Such a regime remains possible. These differences make the international precedent a limited guide to the regime's durability.

Social democracy and Fuentes-style explicit fascism would face the constraints of the productive base through different political arrangements. The European social democracies that worked from 1945 through the 1980s sat on productive bases the imperial framework was subsidizing. The redistribution model assumes a productive economy from which surplus can be taxed and transferred. The money surplus survives, in corporate profits and private wealth at record levels, and taxing it is a political difficulty. Large redistributive transfers would raise demand for goods and capacity partly produced abroad. Imports can meet it while supply, financing and political access hold. The crisis could erode those conditions, including the dollar's capacity to finance imports. A socialist government would inherit that exposure along with the productive capacity remaining at home. The autarkic-rearmament capacity was demolished across 40 years of offshoring. Fascism's old inputs now run against the right, because the right is the regime that owns the slump and the war. Mamdani-scale municipal social democracy can function in a single rich city subsidized by the larger architecture. Fuentes-style fascism can give the existing minoritarian-authoritarian order a more explicit language. Each program would depend on access to foreign output and on rebuilding production at home. The reshoring record shows how slowly the required suppliers and skills can be rebuilt.

On the party

The objection that the contemporary Marxist articulation lacks organizational pre-positioning misreads the Bolshevik case. The German Social Democratic Party (SPD) between 1890 and 1914 was the most organizationally pre-positioned socialist party in history. Mass membership at the order of a million by 1914, the Reichstag's largest single

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[943] Orbán lost office on April 12, 2026, to Péter Magyar's Tisza, 138 of 199 seats on 53% of the vote on a record turnout, and in September his successor's government was among the signatories of the Assembly declaration on Ukraine (the National Election Office's count; the joint declaration of September 23, 2026, delivered by the EU's high representative with the French and Ukrainian foreign ministers).

faction with 35% of the vote in the 1912 election,[944] the world's largest socialist press, an entire alternative civil society of SPD-aligned unions and clubs and mutual aid societies and even sports leagues. The infrastructure was the model the international socialist movement attempted to replicate. The infrastructure also became the structural reason the SPD voted for war credits in August 1914, abandoning international working-class solidarity for the imperial project at the moment the doctrine was supposed to refuse exactly that.[945] It became the structural reason the SPD government under Ebert authorized the Freikorps in 1918 and 1919 to crush the Spartacist uprising, and the government bore political responsibility when Freikorps officers murdered Luxemburg and Karl Liebknecht in January 1919, though whether anyone in it ordered the killings remains disputed.[946] The

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[944] SPD membership: 384,327 on June 30, 1906, the first exact count, and 1,085,905 in the executive's report to the 1914 party congress, as of March 31, 1914 (Franz Osterroth and Dieter Schuster, Chronik der deutschen Sozialdemokratie, vol. 1, 2nd ed., 1975, electronic edition, Friedrich-Ebert-Stiftung, https://library.fes.de/fulltext/bibliothek/00800/spd10005.htm and https://library.fes.de/fulltext/bibliothek/chronik/band1/e235e856.html). The election of January 12, 1912: 4,250,329 votes, 34.8% of the votes cast, and 110 of 397 seats, the largest party (Statistik des Deutschen Reichs, vol. 250, as reprinted by German History in Documents and Images, "Elections to the Reichstag (1890–1912)", https://germanhistorydocs.org/en/wilhelmine-germany-and-the-first-world-war-1890-1918/elections-to-the-reichstag-1890-1912.pdf; Deutsches Historisches Museum, LeMO, "Reichstagswahl 12. Januar 1912", https://www.dhm.de/lemo/bestand/objekt/reichstagswahl-12-januar-1912.html).

[945] The parliamentary party's meeting of August 3, 1914, at which the deputies voted 78 to 14 to approve the war credits, Haase, Ledebour and Liebknecht among the 14, and the Reichstag's unanimous approval of the first credit on August 4 (Deutscher Bundestag, "Vor 100 Jahren: Reichstag billigt Kriegskredite", July 28, 2014, https://www.bundestag.de/webarchiv/textarchiv/2014/kw31_reichstagsprotokolle-284830; the same chronicle, https://library.fes.de/fulltext/bibliothek/00800/spd10007.htm).

[946] The uprising begun in Berlin on January 5, 1919, put down by government troops and Freikorps under Gustav Noske as commander-in-chief (German History in Documents and Images, introduction to Betty Scholem's letters of January 1919, https://germanhistorydocs.org/de/die-weimarer-republik-1918-1933/ghdi:document-3824); the killing of Luxemburg and Liebknecht on January 15 by soldiers of the Garde-Kavallerie-Schützen-Division, most of the officers involved acquitted in May 1919 in a verdict Noske confirmed, and the SPD held responsible as the governing party (Arnulf Scriba, "Die Ermordung von Rosa Luxemburg und Karl Liebknecht", LeMO, Deutsches Historisches Museum, https://www.dhm.de/lemo/kapitel/weimarer-republik/revolution-191819/ermordung-von-luxemburg-und-liebknecht.html); on Noske's role, Waldemar Pabst's late account of a telephone call in which Noske left the decision to him, in Klaus Gietinger, Eine Leiche im Landwehrkanal (Berlin: Verlag 1900, 1995), an account the Stuttgart courts dismissed (Fritz Güde, review, kritisch-lesen.de, 2009, updated 2011,

organization built to overthrow capitalism had become the organization defending capitalism's existing arrangement, because the institutional position the organization had built required the arrangement's continuation. The pre-positioned infrastructure was what the moment of rupture had to be defended against.

The Russian Social Democratic Labour Party (RSDLP) in 1903 through 1917 looked from any contemporary observer's perspective like a failed and chaotic project. The 1903 Second Congress split between the party's Bolshevik and Menshevik factions over questions that looked in retrospect like analytical clarifications but appeared at the time like potentially pointless internecine self-destruction. The revolution of 1905 produced the soviets without producing stable revolutionary power, and a decade of underground organizing under Tsarist repression followed. Factional disputes over the relationship between bourgeois and proletarian revolution, over philosophy and over who could count as a party member consumed enormous energy. Membership at various points numbered tens of thousands instead of hundreds of thousands.[947]

By every metric of the SPD model the RSDLP was failing. The 1917 moment showed what the comparison had missed. The Bolsheviks were organized, with a paper, a press, Duma deputies and the boards of the capital's unions by 1914, and those assets were smaller than the SPD's and far less tied to preserving the existing order. When the conditions broke open in February and again in October they could move whole. The SPD in 1918 and 1919 could not.[948]

The contemporary configuration in the imperial core has structural features that map closer to the RSDLP than to the SPD. The likeness is the claim: an organization with nothing to lose was built there before the crisis and is being built here, with the party question open in the core for the first time in a century. The workers the sequence would organize are already moving, in the strategic sectors where labor has found its leverage since 2021. The auto strike of 2023 took all three companies at once, the Teamsters' contract came the same summer, Congress had to end the rail dispute of 2022, the ports struck in 2024, and organizing reached the warehouses and the coffee chains.[949] Residents are moving too: counties from Georgia to Maryland have passed moratoria on data centers against the

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https://kritisch-lesen.de/rezension/noskes-schuld-an-der-ermordung-rosa-luxemburgs.pdf).

[947] Lih, Lars T. Lenin Rediscovered: What Is to Be Done? in Context. Leiden: Brill, 2006.

[948] Lih, Lars T. Lenin Rediscovered: What Is to Be Done? in Context. Leiden: Brill, 2006.; Rabinowitch, Alexander. The Bolsheviks Come to Power: The Revolution of 1917 in Petrograd. New York: W. W. Norton, 1976.

[949] United Auto Workers, "The Stand Up Strike Begins at the Big Three," September 15, 2023; International Brotherhood of Teamsters, "'We've Changed the Game': Teamsters Win Historic UPS Contract," July 25, 2023; U.S. Congress, Public Law 117-216, approved December 2, 2022, imposing the rail agreement; International Longshoremen's Association and United States Maritime Alliance, "Joint Statement Regarding Master Contract," October 3, 2024, ending the strike pending further negotiations.

buildout's power draw, and moratorium bills are filed in six state legislatures.[950] The DSA membership is the order of magnitude of the RSDLP at various points before 1917, not the SPD at its peak.

The factional infighting that consumes the contemporary left looks like weakness from inside the moment. Seen from the rupture phase, the disputes look like the analytical work the rupture may require. Lenin's sentence for it, in the declaration that founded the paper the party was built around, was that before we can unite, and in order that we may unite, we must first of all draw firm and definite lines of demarcation.[951]

The contemporary Marxist ecosystem is not uniform on this question. Two layers of it are of the RSDLP type. The digital layer, the streamers and the education infrastructure that has grown across the past decade, is the agitational perimeter: the leaflet at the factory gate and the paper smuggled across the border, carried through online media. It carries the critique to an audience the party cannot reach, an audience that is neither a membership nor an organization able to coordinate action. The decisive layer is inside the organizations: the Marxist caucuses working within the mass organization, the independent cadre groups, the reading-group networks, and the labor educational circles organizing around the aligned contract expirations of 2028. Both layers are factional, theoretically energetic and not yet institutionally captured. The DSA's electoral arm, by contrast, depends on the Democratic Party's architecture, and that dependence looks more like the SPD's trajectory before 1914.

The rupture phase will sort these differently. The analytical circles can absorb the recognition without risking the institutions on which they depend. The integrated electoral apparatus has more to lose. The SPD's conservatism in 1914 was material, not a failure of nerve. It had an apparatus to lose, buildings, presses, seats, union treasuries, a million members' dues, and the preservation of the apparatus subordinated the revolution the program still named. The Bolsheviks had an organization and nothing else to lose. The contemporary caucus is in the second position and the electoral arm is entering the first. The caucus has no patronage and no property, while the electoral arm answers to Albany, City Hall, and the national committee that funds its ballot line. The caucus inside the mass organization therefore stands where the Bolshevik faction stood inside its party, fighting to subordinate the electoral work to the class it is supposed to serve, and the outcome of that fight is the open question of what kind of party emerges.

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[950] The data-center moratoria: DeKalb County, Georgia (July 2025; extended December 2025 and June 9, 2026); Fulton County, Indiana (a one-year moratorium, March 2, 2026); York County, South Carolina (nine months, July 13, 2026); Montgomery County, Maryland (18 months, July 28, 2026); Loudoun County, Virginia, the data-center capital with 250 data centers (a pause put to a vote on September 15, 2026); Perkins Coie, The Rack Report, Q1 2026, on the state bills. DeKalb County's moratorium has been in force since July 2025 and has been extended twice; the state bills are proposals, not yet law.

[951] Lenin, "Declaration of the Editorial Board of Iskra" (1900), quoted in What Is to Be Done? (1902).

The critique has also migrated to the layer where the audience is. The largest left streamers now state the no-theory-of-power case to audiences the party cannot reach, in the vernacular: liberalism as monarchism in 1848, defending a political system by appealing to a leader's personal character. The capital class as the one institution that expands itself instead of preserving itself. Class consciousness produced by changed material conditions, with persuasion downstream of them, and the instruction to position for survival and for the opening after the collapse and not to vote harder. That last is the distinction between electoral persuasion and building the organized capacity to act, arrived at from the other end, by people who will be present when the conditions produce the forms.

On the recognition

The question that remains is the one the Soviet experience seemed to settle but I am arguing did not: the USSR existed and was visibly an alternative for 70 years and did not in the long run produce a successful Marxist articulation in the imperial core. Why would the Chinese alternative produce a different result? The answer is again in the inversion of the encirclement topology. The USSR sat at the encircled periphery of a global capitalist system whose productive center was the imperial core and it still shook the United States and global capitalism to its core. China sits at the productive center of a global system whose imperial core is hollowing. The structural objection that socialism in one country cannot survive indefinite encirclement no longer applies in the form that produced the original objection.

These cases are consistent with the dictum at the foundation of Marx's analytical method. From the 1859 preface to A Contribution to the Critique of Political Economy: "It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness." The Marxist analytical apparatus rests on this priority, and the present moment is testing it in plain view.[952]

From Kosovo to Hormuz, the record includes the incumbent's repeated breaches of the order it claims to uphold, as some of its own institutions acknowledge. John Denton, the International Chamber of Commerce's secretary general, went from the WTO ministerial in Yaoundé to Milken in early May. He told Bloomberg that "consensus based multilateralism is over." What replaces it, in his framing, is coalitions of the willing operating outside institutions that have lost the alignment to function.[953]

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[952] Marx, Karl. A Contribution to the Critique of Political Economy. 1859. Translated by S. W. Ryazanskaya. Moscow: Progress Publishers, 1970. Free online text: https://www.marxists.org/archive/marx/works/1859/critique-pol-economy/index.htm Preface.

[953] International Chamber of Commerce. "ICC Warns on Fertiliser Supply and Trade Fragmentation at Milken Global Conference." May 6, 2026. https://iccwbo.org/news-publications/news/icc-warns-on-fertiliser-supply-and-trade-fragmentation-at-milken-global-conference/ Reporting John W. H. Denton's Bloomberg interview and Milken remarks.

The capitalists and mainstream institutional-class actors producing these statements are articulating in their own vocabulary what the material conditions are forcing them to see. The Marxist prediction was that material conditions would force consciousness across all class positions, including positions that have every interest in resisting the recognition. The statements do not by themselves establish the direction of a wider class-conscious political movement or validate the entire theoretical framework. The articulation contest sits inside this consciousness shift. People can revise their view of the existing order because it fails to meet their needs, without first accepting Beijing's account of that failure. Which political conclusions they draw still depends on the movements and institutions able to organize the response.

The same recognition is fracturing the domestic core. The material bargain that anchored American political stability for 80 years is violently unwinding: the implicit promise that working hard would buy a house, raise a family, and reach a higher standard of living than one's parents had reached. The bargain held a domestic political center that could read both socialist and fascist articulations as un-American, diseases of broken European systems that the American bargain had escaped. Without the bargain, the immunity dissolves.

In Marx's terms, the shift in material conditions is changing consciousness across class positions and political traditions. The current moment holds embers that a rupture could fan into fire. Treating them as a fire already burning invites complacency.

This forecast is wrong if the coalitions blocking data-center sites have not federated into a durable organization by the time the aligned contracts expire.

XXX. The Question Mark

On the branches

The cascade can resolve along three branches: a socialist branch, an authoritarian branch, and systemic chaos. The first two divide on the politics of the rich-country core; the third is the case in which no successor order forms. China's class character is a separate question that can alter either of the first two.

In the socialist branch, China leads the world economy and Marxist politics prevails in the rich countries of the imperial core. The global productive economy reorganizes around planning, with party-state political control of capital as the dominant ordering form and explicit productive planning in place of the present regime of fictitious-capital accumulation. The eventual transition past the primary stage of socialism into socialism proper, which the CCP names as its long-term goal, becomes the operative trajectory. This branch is the end of capitalism as a global ordering principle and its supersession by the successor Marx specified, once the world market had formed and its contradictions had become globally synchronized.

In the authoritarian branch, authoritarian governments rule the rich countries while China's productive base keeps growing, and the world is contested between them. The G7

governments consolidate around a dominant leader, weakened checks on power and entrenched governing-party control, as in Viktor Orbán's Hungary until 2026, varying by case from authoritarian-conservative to more explicitly fascist. The world system becomes an asymmetric competition between the structurally durable Beijing project and a declining American-aligned bloc reduced to regional power. I expect the widening productive gap to weaken the American-aligned bloc. Convergence on the socialist branch would require political change in the core and a Chinese course that expands collective control over investment, social provision and workers' power.

In systemic chaos, no successor order forms; it is the failure case for both other branches. Beijing fails, is destroyed, is captured by its security apparatus at a level its institutional capacity cannot contain, or is drawn into the Wilhelmine path, the confrontation with the established power that imperial Germany pursued before the First World War, which it has so far refused. Regions reorganize separately, each productive base too thin to anchor a new system.

Climate compounding affects all three branches. The summer's European drought and heatwaves arrived during the war, adding harvest losses to higher input costs.[954] With further warming, damage and the need for adaptation grow. Repairing homes and infrastructure, protecting crops and accommodating displaced people require work and investment merely to sustain existing livelihoods. Debt can be written down and equipment sold cheaply without removing those demands.[955]

Rosa Luxemburg's formulation in the Junius Pamphlet, attributed there to Engels and remembered as "socialism or barbarism," names the alternative as regression and not continuation.[956] The barbarism path is no science-fictional outlier: it comes if the structural durability of the Beijing project turns out to have been overestimated and the political contest in the imperial core absorbs the recognition into forms unable to organize productive supersession.

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[954] JRC MARS Bulletin, July 27 and September 28, 2026, on heat and drought damage to European crops; John Baffes and Kaltrina Temaj, World Bank Data Blog, May 14, 2026, on fertilizer affordability at its weakest since mid-2022, https://blogs.worldbank.org/en/opendata/fertilizer-prices-surge-as-strait-of-hormuz-disruptions-tighten-. The July JRC bulletin put total cereals 1% below the five-year average; the September bulletin reported grain maize 8%, potatoes 7% and sugar beet 11% below it, with winter crops close to it. https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/heatwaves-impact-summer-and-winter-crops-2026-07-27_en; https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/european-agriculture-hit-hard-exceptionally-hot-and-dry-summer-2026-09-28_en.

[955] IPCC, Climate Change 2022: Impacts, Adaptation and Vulnerability, Summary for Policymakers, B.2, B.4–B.5 and C.3–C.4.

[956] Luxemburg, Rosa. The Junius Pamphlet. Written 1915, published 1916. Chapter 1. https://www.marxists.org/archive/luxemburg/1915/junius/ch01.htm

China's class character is where the three branches acquire their full stake. The socialist branch is the bourgeois succession ending for the first time in five centuries, the arc terminating in a non-bourgeois successor instead of recomposing. The recomposition case, in which China's directed forms turn out to be the cosmetic and capital the essence, is the bourgeois arc continuing under a new center, the Arrighi sequence extended to a fifth center. Beijing's convergence on Lenin's criteria for imperialism would support that reading. The frame does not decide between them. The distinction turns on whether wealth becomes an inheritable source of political power and whether the state can still overrule profit at the commanding heights. Those tests must establish whether the arc ends; the historical pattern cannot establish it in advance. If China's direction of capital fails, recomposition can arrive beside a Marxist core or an Orbanized one.

The branches are more coupled than parallel, and the coupling is material: the core's collapse closes the recomposition's exits, the export of overcapacity and the export of capital to a solvent periphery, which is what forces the choice. The structural durability of the Beijing project is conditional on the transition. A controlled American retreat leaves Beijing inheriting a functional system it can integrate with. A catastrophic American collapse leaves Beijing inheriting a wreck it may not have the institutional capacity to stabilize. Survival under those conditions requires the kind of mobilization that destroys the gradualist developmental path that Reform and Opening took up in 1978 and the primary-stage doctrine has protected since 1987. The danger inside the controlled transition is the interwar one. Kindleberger's sentence on the 1930s was that Britain could not and the United States would not take responsibility for the system, and a successor whose doctrine requires the transition to be slow can become a successor that will not, beside an incumbent that cannot.[957]

Every branch runs under a constraint the branches themselves cannot alter. The infinite growth that debt-based capitalism requires, the finite resources that planetary boundaries impose, and the stable climate that civilization requires form an impossible trinity: any two can be held for a time and all three cannot be held permanently. The clocks run on the same years, though they are different kinds of date, and two of them are load-bearing. The first is the 2030 waypoint in the climate assessments' modeled pathways, in which holding warming to 1.5°C with little or no overshoot requires global greenhouse-gas emissions about 43% below their 2019 level by that year. The second is the Taiwan window the American assessments place between 2027 and 2030, dates that mark the readiness American officials attribute to China's forces and the planning built on it, not a forecast that war will come. The AGI window the labs sell for the same years is a sales calendar. The resource peaks sometimes set beside them, phosphorus, helium, the rare earths, are contested, the phosphorus peak most of all since the reserves were revised upward in 2010, and they are carried here as a flag and not as clocks.[958] The attempt to square the

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[957] Charles P. Kindleberger, The World in Depression, 1929–1939 (1973); Joseph S. Nye, "The Kindleberger Trap", Project Syndicate, January 9, 2017.

[958] Cordell, Drangert, and White, "The Story of Phosphorus" (2009): peak between 2030 and 2040 on the USGS reserves of the time; Mohr and Craswell (2033); Van Kauwenbergh, World Phosphate Rock Reserves and Resources (IFDC, 2010) and USGS (2012) revised

trinity is what drives the extreme behavior this work records at the strait and in the data centers, and it is why the compression is a property of the period and not of any actor in it.

Three questions decide which branch is realized. Can China avoid the Soviet transition's capture and ossification? Does its productive predominance reverse the conditions of capitalist encirclement? And will political organization in the imperial core give the crisis a Marxist or a fascist outcome?

One process, three distances

I propose that the three terminations are one process at three distances: American hegemony, the last century's organization of capitalism; Western dominance, five centuries old; and capitalism itself. The three are joined in a chain of causes. On my reading, the strait closed on the incumbent's allies because the incumbent's productive base had moved, which holds if what failed at the strait was the capacity to replace what the war consumed. The base moved because the incumbent's capital, its rate of profit falling, withdrew from production, into finance after the signal crisis of 1971 and into production abroad over the decades that followed, which holds if the falling rate of profit, and not policy alone, drove the withdrawal. China's growing ability to finance its own development reduces the incumbent's influence, while other recipients of investment can also become competitors. Capital continues to seek returns abroad under those changing terms.

For each of the three, this work has tried to separate what has been observed, what it infers from the observations, and what remains unsettled. On the unsettled questions it gives its judgment and the case against it.

The three endings are connected, but each requires its own argument. Failure to secure passage at the strait bears on American hegemony. The wider loss of the West's productive and military advantages bears on Western dominance. Neither establishes capitalism's end. Adwa and Tsushima defeated individual empires, and Vietnam defeated the incumbent, while industrial and financial strength elsewhere kept the wider system growing. American production had likewise carried it through Britain's decline. A change of leading power of the kind Ray Dalio describes could do so again.[959]

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reserves to 60 and 71 billion tons, a reserve-to-production ratio near 370 years.

[959] Ray Dalio, The Changing World Order, draft (Bridgewater Associates, September 2020), pp. 18–19 and 23 (the Big Cycle; reserve status passing from the guilder to the pound to the dollar; "when the Dutch Empire gave way to the British Empire and when the British Empire gave way to the US Empire"), and p. 12 (capitalism as the "formula for success" since the Industrial Revolution, which "has failed to do that job well enough" to produce equal opportunity, against communism, which "didn't work in the forms that have been tried"), copy at https://asiabusinesscouncil.org/wp-content/uploads/2020/10/The-Changing-World-Order_Ray-Dalio.pdf; "The Changing World Order: The Big Cycles Over the Last 500 Years," LinkedIn, May 2020, https://www.linkedin.com/pulse/big-cycles-over-last-500-years-ray-dalio/. Published in revised form as Principles for Dealing with the Changing World Order (2021).

A hegemony in the sense used here ends when the incumbent can neither restore the financial and commercial system through which it organizes others, its medium, nor renew their willingness to accept its leadership, its binder, and when the money it withdraws from production finances little but itself. Each part of that definition now has a dated event behind it. That the parts add up to an ending is this work's inference. The dating is Arrighi's, extended: signal crisis in 1971, terminal onset at Iraq in 2003, 2008 read as confirmation, and the same bid for supremacy made again at the strait in 2026. The transition of 1914 to 1945 ran about thirty years, and no single event in it was the transition. Counted from Iraq, the crisis is in its third decade. Counted from Syria, the war is in its sixteenth year.

The claim about Western dominance is the largest. It opened at Hormuz early in the sixteenth century, with the carrack's cannon and no productive lead behind it, and in 2026 the gun's descendant has been unable to hold the same strait against a launcher count and a shell line. The claim is wider than the United States. It is wrong if the Western allies, together or apart, rebuild the capacity the incumbent has lost: a defense industry that can refill its own magazines, energy that does not run through the strait, and a manufacturing base that no supplier, the successor included, could coerce. I judge that rebuilding unlikely, because Europe's industry is squeezed by the energy shock and its rearmament depends on American systems and Chinese materials. It is the test that would show the claim wrong. The universalism that carried the arc through its four orders, as religion, confession, dynasty and then the rule of law, has meanwhile been dismantled by its own carrier. The

old regime outlived its base once already, with its base still at home. The wager here is that it cannot do so again with its base in another country.[960961962963]

That connects the three ends without making them interchangeable. American hegemony can end as production moves elsewhere, and Western dominance can end as its inherited

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[960] The magazine constraint is the Patriot line's output: a year's production of the newest interceptor was 620 in 2025, while US forces are estimated to have fired 1,060 to 1,430 Patriots of all PAC-3 types, older models included, in the war's first 39 days; the Gulf partners alone fired about 800 PAC-3s in the first three days on Zelensky's count (Lockheed Martin, January 6, 2026; Zelensky, March 2026). Mark F. Cancian and Chris H. Park, "Last Rounds? Status of Key Munitions at the Iran War Ceasefire", CSIS, April 21, 2026, Table 1: an estimated 1,060 to 1,430 PAC-3 interceptors used by US forces over the 39 days of the campaign before the ceasefire, from a pre-war inventory of 2,330, a count that includes earlier PAC-3 types and leaves out up to 400 older PAC-2s, https://www.csis.org/analysis/last-rounds-status-key-munitions-iran-war-ceasefire; The Defense Post, January 7, 2026, for the 620 delivered in 2025, https://thedefensepost.com/2026/01/07/pac-3-mse-triple-production/amp/.

[961] Associated Press, September 19, 2026 (regional officials on the interceptor shortage and the requests to France, Britain, Pakistan and Egypt, copy at https://www.ksat.com/news/2026/09/19/saudi-arabia-confirms-yemens-houthi-rebels-tried-to-attack-its-capital-with-a-ballistic-missile/; the coalition's confirmation of the attempt on the capital); Saudi Press Agency, September 19; CNN, September 17 (the Houthi claim and the imagery, copy at https://www.cnn.co.jp/world/35252746.html and https://prod.transcripts.cnn.com/show/cnr/date/2026-09-17/segment/21; Janes and The War Zone on the airframe, tail 5539, https://www.yna.co.kr/view/AKR20260918079400009; the ministry silent); Reuters, September 19 (the fuel storage fire at King Khalid International Airport); the Mecca Joint Defence Agreement of Saudi Arabia, Turkey and Pakistan, signed August 7, 2026 (the joint statement of the Makkah Summit, Saudi Press Agency, August 7: an armed attack on any one of the three to be regarded as an attack against them all); Pakistan's statement of September 10, 2026 that it was not considering an immediate military response under it; Turkey's foreign minister on it, September 2026.

[962] NBC, September 11, 2026, for the Houthi capture of the coast and Perim, https://www.nbcnews.com/world/middle-east/houthis-control-bab-el-mandeb-yemen-red-sea-saudi-iran-war-oil-rcna597186; Axios, September 11, 2026, for the crown prince's two calls and the president's refusal, https://www.axios.com/2026/09/11/houthis-yemen-saudi-trump-mbs-strikes; Reuters, September 16, 2026, for the meeting in Muscat, copy at https://www.investing.com/news/world-news/us-officials-met-iranbacked-houthis-in-oman-over-the-weekend-sources-say-4903412.

[963] Jean Aubin, "Albuquerque, Alfonso de," Encyclopaedia Iranica I/8 (1985), 823–24, for Hormuz in 1507 and lasting Portuguese occupation from 1515; Mustafa L. Bilge, "Aden," TDV İslâm Ansiklopedisi 1 (1988), 367–69, for Albuquerque's failed assault in 1513 and the Ottoman conquest in 1538.

advantages disperse. Capitalism could survive both through another expanding order, as it survived earlier successions. My further claim is that the rival arrangements now forming cannot sustain that expansion through the conflicts they generate. Profitable enclaves within a retreating system would remain capitalist, but their profits would not settle that historical question. A durable renewal on a wider scale would overturn the judgment.

My judgment is that the war, the build-out and the damage to the climate reinforce one another, and that this is likely to defeat durable capitalist renewal, including renewal outside America. The unmeasured balance between the damage and the recovery routes examined earlier limits my confidence in that judgment. Iatrogenesis makes the attempted rescue a source of further injury; metastasis carries that injury into the economies expected to lead the recovery. When their damaged production returns as lost supplies and customers, the next rescue begins under worse conditions. The contest is whether adaptation can restore those conditions faster than the struggle to preserve accumulation destroys them.

The successor's class content is unsettled, and this work owes its judgment on the outcome it argues against. If the recomposition case wins and China's directed forms prove to be capitalism's new center, the arc continues, and continues badly. That would defeat the socialist succession, and capitalism would still have to survive its own build-out: replacing the workers who produce surplus value and buy the output would threaten a capitalist China too. A capitalist China could sell to the periphery it helps build, but those buyers need incomes or credit, and their own industries can become competitors. Raising household consumption at home could absorb more output, while intensifying conflict over the share retained for accumulation. China would face the same problem of sustaining demand through the redistribution its recovery requires. If neither peripheral demand nor higher household consumption absorbed its capacity, China could face prolonged stagnation on a scale far greater than Japan's after 1990. A turn to the war economy would face the nuclear danger already traced. For China it would mean building against the current of its own productive forces, capacity its own relations could not use. For the species it would mean this book's transition run again at a higher temperature.

The case against this judgment is real: capitalism has renewed itself at every earlier succession, and a capitalist China could find its absorber in the periphery it is building. This work still judges the socialist outcome both the better one and the one the material conditions now favor.

Socialism and barbarism both remain available. Preserved capitalism in its current form is what the tests of sustained investment returns, wage employment and financing would have to show, and this work's claim is that they will not. The method that dated the end too early in 1848 and again in Plekhanov's day has to be turned on this work as well, which is why its claims are written as dated tests: if the system still has room for its productive forces, the tests will say so before the argument does.

Arrighi closed the introduction of *The Long Twentieth Century* on the same exhaustive partition from the other tradition. He asked, in paraphrase, whether the East Asian rise was a new superiority of force or the beginning of the end of the superiority on which the

West's fortunes had rested for five centuries. He asked too whether capitalist history would end in a world empire founded on that force, as Weber seemed to expect, or in a world market economy in which it withered, as Smith did.[964] The Weber ending is the one Washington attempted and this work has documented failing: the monopoly of legitimate violence assembled after 1991, spent down to a chokepoint where military risk and the terms of insurance obstruct the passage the fleet was meant to secure.

The Smith ending, force equalized by mutual fear until the injustice of nations is overawed into respect, is recognizable as the multipolar deterrence that nuclear weapons enforce. Smith's equalizer and Engels's fork are the same observation made a century apart. On this work's forecast the architecture ends unless the dated tests show accumulation recovering within it.[965]

The partition has a second statement at the other end of the same book. The epilogue lays out three endings: a world empire imposed by the old centers' still-superior force; a world market society centered on East Asia, in which Western force withers into one power among several; or systemic chaos, humanity consumed in the escalating violence of the transition itself.[966] In this work's reading, world empire is the ending Hormuz foreclosed, and systemic chaos is the branch of that name. The world market society is the terrain the rest of the scheme divides on two axes Arrighi left open: whether the imperial core turns toward a Marxist politics or an Orbanized consolidation, which the socialist and authoritarian branches separate, and whether the successor stays capitalist, which the recomposition case contests.

In the third week of September the incumbent's own press listed four dangers in one paragraph, war warnings from the European capitals, the alarm over AI, the energy crunch and the bond market's signal of a debt crisis, as a fraught moment wanting far-sighted men. This work has read them as one event under four names.[967] Lenin's pamphlet of September 1917 opened on the same scene: everybody says this, everybody admits it, everybody has decided it is so, and nothing is being done.[968] I read the American imperial architecture as entering liquidation. The tests gathered at the end of this chapter can show whether the

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[964] Arrighi, The Long Twentieth Century, 23–24.

[965] Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (1776), book IV, chapter VII, part III, on the balance of power and mutual fear.

[966] Arrighi, The Long Twentieth Century (1994), 354–56; Arrighi and Silver, Chaos and Governance, 285–89. Arrighi's sentence for the third ending, paraphrased: before humanity chokes or basks in the dungeon or paradise of a Western-centered empire or an East Asian-centered market society, it may burn in the escalating violence that has accompanied the liquidation of the Cold War order.

[967] Gideon Rachman, "Trump and Xi are the wrong men at the wrong time", Financial Times, September 21, 2026. The European mood of the week before, in a French party leader's words after three hours with the president and the services: "in my 50 years I have rarely felt such a sense of vertigo" (Guillaume Lacroix, quoted by Rachman), https://www.ft.com/content/aa1dbf18-eaa3-411a-9bf0-52c99adcb7a8.

process continues, stabilizes or reverses. The Communist Party of China has absorbed 150 years of revolutionary practice and counter-revolutionary failure as operational doctrine. Beijing is conducting the transition from strategic stalemate into counter-offensive with limits that the prior phases of *On Protracted War* were designed to enable, though no doctrinal text naming that phase has been found.

Production is no longer where the incumbent's institutions remember it. My conclusion is that the incumbent cannot sustain its present financial claims and military commitments on the productive base it retains, and workers and households bear much of the cost of trying. The productive center that sat inside the American-led order when it was rescued in earlier crises now sits outside it, in China, and recovery requires either cooperating with that productive center or rebuilding capacity elsewhere, on a timeline the cascade does not provide. On this work's judgment the form of the supersession is the live question, and a recovery that restores accumulation within the existing architecture would remove its premise.[969]

Which branch the rupture phase resolves into is not yet determined. Marx declined in his published work to blueprint the society that would succeed capitalism, and the material conditions do not settle it either. It depends on the frameworks and organizations in place when the population finally feels the break. Beijing's capacity to absorb the transition and the contest in the imperial core are coupled: what the core becomes during the rupture determines part of what Beijing inherits, and what Beijing inherits determines what the rupture resolves into.

Britain's passage to industrial capitalism, the transition this work takes as its model for the successor, was a barbarism of the first order from inside it. The years from 1770 to 1848 were the enclosures, the Atlantic slave trade at its British height, the clearances, the factory regime and the workhouse, the Napoleonic wars, and the Irish famine at the window's close, a million dead while food was exported.[970] Every mode transition to date ran through mass death. Whether this one must is the open question, and the solvent is what opens it: the general war through which the earlier transitions were decided is the one the bomb has closed. The slogan Luxemburg left concerns the terminus: the distinction is between barbarism that births a mode and barbarism that births nothing, and which one a transition

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[968] Lenin, "The Impending Catastrophe and How to Combat It" (1917), Collected Works, vol. 25, chapter 1: "Everybody says this. Everybody admits it. Everybody has decided it is so. Yet nothing is being done."

[969] The same finding from the world-systems side: Torkil Lauesen, IIPPE 2026, and The Long Transition Towards Socialism and the End of Capitalism (2024), 24 and 320, on the productive forces developed in the South as an unintended side effect of neoliberal outsourcing, and 36–37 and 40–41, on the transitional state's two priorities, building the productive forces and holding security, under capital's flight and imperial sanction from the start.

[970] Ó Gráda, Cormac. Black '47 and Beyond: The Great Irish Famine in History, Economy, and Memory. Princeton, NJ: Princeton University Press, 1999.

was becomes legible only afterward. The socialist branch in reality looks like systemic chaos from inside it, and reading the catastrophe as proof of chaos is the same error as reading the students borrowing Mao at Tsinghua as proof of the socialist branch. The catastrophe cannot tell the branches apart; the tests that can are in the successor's record. On the British analogy alone, a supersession through catastrophe would be the ceiling. The solvent is the one condition that analogy did not have.

The monarchical sea took 130 years, from 1815 to 1945 and the end of the dynastic principle among the great powers, to universalize the content of the revolution it crushed; Mayer's century, 1815 to 1914, measures only how long the restored monarchies held. The restoration cracked in 1830, broke in 1848 and was hollowed by the war of 1870, each time because a productive base that had already moved broke through the restored political form. The capitalist sea drains on network speed, real-time capital and a climate forcing with its own deadline, and its equivalents of those cracks have arrived early and stacked: 2008, the 2020s, Hormuz. Compression sets the speed and not the form. The room for the productive forces is spent, and compression is why this work does not expect the old regime to outlive its base for the century Plekhanov's generation had to wait.

Beijing's managed transition and the incumbent's catastrophic one became materially linked in the third week of July, when Beijing's reserves gave it a hand in how the incumbent's crisis unfolded. The American reserve has drained toward its authorization floor to hold a domestic price through an election season. China drew on a stockpile estimated at four times the American strategic reserve, a comparison that counts China's commercial stocks and leaves out America's.[971] Both powers are using buffers. China's larger room to adjust purchases gives it influence over the shortage, but drawing stocks also spends that room.

When Iranian state media confirms proposals from a mediator, I judge Beijing to have the most leverage. As the largest importer of the region's crude it decides much of what producers on both sides of the strait can sell, its reserves give it more time to manage a closure, and it hosted the talks that restored Saudi-Iranian relations in 2023. Beijing's interest in mediating is structural: a controlled transition lets Beijing inherit a functional system, while a disorderly autumn leaves it a wreck. The strongest argument that the rupture will be managed and not catastrophic is that the actor with the deepest buffers is the actor whose entire doctrine requires the transition to be slow. Goodwill has nothing to do with it.[972]

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[971] Energy Information Administration, Weekly U.S. Ending Stocks of Crude Oil in SPR, release of October 7, 2026 (282.983 million barrels in the week ending October 2), https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCSSTUS1&f=W; 42 U.S.C. 6241(h)(2) (no drawdown under that authority below 252.4 million barrels); RetailNews Asia, September 19, 2026 (its September-to-date import estimate of 7.84 million barrels a day, the most in four months; separately, inventories attributed to Kpler, with commercial and state stocks falling from 1.25 billion barrels in April to 1.14 billion), https://retailnews.asia/china-crude-oil-imports-climb-to-7-84-million-barrels-daily-as-stockpiles-fall.

China can influence the pace of the energy shock through both purchases and exports. Buying less crude eases one source of demand; withholding refined fuel can tighten another market. Stocks permit adjustment for a time, while lower refinery runs show that part of the adjustment can be a reduction in activity. I infer that these choices give Beijing leverage over the crisis. The inference that it is deliberately setting the pace of an American financial cascade is stronger and remains unproven.

One objection to the successor comes from inside the tradition and has to be named. Every prior succession looked, from inside the incumbent, like the loss of the human: the rising Dutch discipline read as Calvin's Geneva against the humane corruption of the Catholic Mediterranean. Marx caught the double edge in 1843, writing of Luther that he freed the body from chains by enchaining the heart.[973] The fear that the present successor is Geneva again, discipline internalized where accommodation used to live, is the oldest internal criticism the socialist tradition carries, and it should be granted standing.

The loss should also be located precisely, because it is epochal and not confessional. The mourning is for the characteristic form of the nineteenth and twentieth centuries' capitalism, which is dying everywhere at once, including in its homeland, where Washington increasingly directs investment and administers markets itself. The era offers no choice between the old form and the new, only a contest over the new form's class content. In the incumbent's apparatus the fear arrives fused with the Oriental-despotism lineage, from the yellow-peril press through Karl Wittfogel's hydraulic state, a despotism he traced to centralized control of irrigation,[974] to the present civilizational genre, which dreads the loss of the individual as the East and not as Geneva.

The fusion is the evidence. Coding a class transition as a racial-civilizational threat is how the wealth question is kept from being asked. Fear of losing individual freedom can be attached to a racial image of China, making the racial judgment appear to follow from a defense of liberty. The tests have to separate that framing from the institutional question: who exercises authority over production, and what power do the people subject to it possess? The tests, on whether capital can leave, whether the state can override it, whether workers' coalitions form and who is provided for, exist so that the Geneva question stays a

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[972] Renaud Lambert reaches the same reading from the other side (Le Monde diplomatique, October 2026): Beijing more injured than enriched by the erosion of an order it grew rich inside, and preferring the incumbent's supremacy to chaos for as long as that supremacy leaves its development alone. On Lambert's reading Beijing would prop the incumbent up. This work argues that its purchases and exports influence the descent; deliberate control of the cascade's timing remains unproved.

[973] Marx, Karl. "A Contribution to the Critique of Hegel's Philosophy of Right: Introduction." Written 1843–1844, published 1844. https://www.marxists.org/archive/marx/works/1843/critique-hpr/intro.htm

[974] Wittfogel, Karl A. Oriental Despotism: A Comparative Study of Total Power. New Haven: Yale University Press, 1957.

question with observables attached, decided by evidence, not settled by the incumbent's nostalgia or the successor's catechism.

The claims of this book can be wrong, and each chapter has said how. Gathered in one place, the book is wrong if:

- real wages and labor-force participation rise together for two consecutive quarters while household delinquencies fall;
- customers outside the financing loop come to pay the full cost of the service, power and replacement included, and a public listing holds its private valuation on money the patrons did not supply;
- passage through Hormuz returns on the old terms, with American enforcement and no Iranian toll or permit, and stays that way;
- the Treasury can borrow at the long end without managing its own market, and long yields fall when the Federal Reserve tightens;
- the three signatures do not all appear and the dollar stays strong;
- a large write-down of these claims is taken, credit goes on functioning, and the surviving assets earn a return for their new owners;
- India, Southeast Asia or Mexico sustains a long expansion on capital that neither Washington commands nor Beijing directs;
- the principal powers fight each other directly and one of them dictates the peace, or a conference with a guarantor behind it writes a settlement that binds;
- capital comes to leave China freely, private fortunes become hereditary and politically protected, and the household's share of output stays where it has been;
- Beijing blockades, quarantines or invades Taiwan by choice, unless Taipei or Washington has first changed the island's formal status;
- the coalitions blocking data-center sites have not federated into a durable organization by the time the aligned contracts expire;
- the Western allies, together or apart, rebuild the capacity the incumbent has lost: a defense industry that can refill its own magazines, energy that does not run through the strait, and a manufacturing base that no supplier, the successor included, could coerce.

The dated record behind each of these, with its window and what would count against it, is kept in The Record, outside the book, and updated as events arrive.

One phrase from the successor's own vocabulary should be read before this work closes. The rejuvenation of the Chinese nation, the formulation Xi fixed at the center of the project, is translated by the incumbent's commentary as nationalist boilerplate, a slogan of arrival. I read it as a claim about the historical period: a return to the Sinocentric material economy that held the hemisphere's center for centuries before 1433, though no official text promises to restore that order or sets a timetable for its return. The voyages ended then and the fleet launched now bracket the interregnum, five centuries the word files away as a parenthesis in someone else's sentence. The incumbent has no equivalent word, because the incumbent's history is the parenthesis. What the phrase does not settle is this work's

question. A restored centrality says nothing by itself about the class character of the center, and the official teleology would read the same whether the returning formation is socialist construction or recomposed capital wearing the mandate. The tests of class character decide it. Read this way, rejuvenation places China's return within the history of Western predominance; it cannot tell us whether that return will put production under collective control.

The strait exposes American decline, and the wider movement of productive and military capacity threatens Western dominance. Capitalism's end requires the further judgment that new centers cannot sustain accumulation through the conflicts their expansion generates, or that control of production passes to another class. The historical recoveries, the present state-capitalist response and the pressures on households are the evidence on which I make that judgment. Whether it holds will be decided in the use of the surviving capacity and in the power people build to direct it.

Postscript: Marx and Arrighi

Arrighi quoted Marx on the sequence of lending states and then corrected him in the next sentence. Marx cannot answer, but his texts do, and the argument between them, read with current events in hand, is an argument this work has been trying to fuse.

They concur on the history. In the chapter on the genesis of the industrial capitalist Marx wrote that the villainies of the Venetian system formed one of the secret bases of the capital-wealth of Holland, to which Venice in her decadence lent large sums of money. So it was with Holland and England: Holland, having ceased by the eighteenth century to be the nation preponderant in commerce and industry, turned to lending enormous amounts of capital to its great rival. And the same thing, he added, was going on in his own day between England and the United States.[975]

Arrighi's correction is that the units in Marx's sequence are of increasing size, resources, and world power, which Marx had not noted, so that the flow from the declining center to the rising one is also the passage to a larger container. Marx likely would not have contested it: the concentration and centralization of capital is the general law he stated for firms, and Arrighi applied it to states. I read the correction as extending the law, though competition among states is a different object from competition among firms. What Marx did not say and Arrighi did is that the sequence has a shape with an end, and the end is what the two of them argue about.[976]

Marx's M-C-M' is the movement of value through production to expanded value. Arrighi read it as a "preference for liquidity," capital investing in a particular input-output combination only as a means to a greater freedom of choice later, and reverting to its money form when that expectation is unfulfilled, which Braudel had called the "sign of

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[975] Karl Marx, Capital, vol. 1 (1867), chapter 31, "The Genesis of the Industrial Capitalist," on Venice, Holland and England.

[976] Marx, Capital, vol. 1, ch. 31 (Moscow 1959: 755–6); Arrighi, The Long Twentieth Century, 14.

autumn." Marx's answer is in the third volume of *Das Kapital*. The reversion to money is the form the falling rate of profit takes when the route through production stops paying. The credit system that carries it is the lever of over-production and over-speculation, the purest and most colossal system of gambling and swindling. It is at the same time the abolition of capital as private property within the framework of capitalist production itself.[977]

The disagreement is real and it is open. Braudel and Arrighi read the financial expansion as a symptom of maturity that recurs. Marx read it as a fever that intensifies the contradictions of the system itself each time it recurs. The news has both potentials.

On the state they argue past each other, and this work needs both. Marx wrote that the alienation of the state, its public debt, marked the capitalist era with its stamp, and the Manifesto's executive committee makes the same claim from the political side: the state is capital's instrument. Arrighi, through Braudel and Weber, holds that capitalism triumphs when it is the state, and that the competition among states for mobile capital is the motor of the whole expansion. In this work's reconstruction, which supplies replies neither man wrote, Marx would reply that the competition among states is the competition among capital displaced onto the state system. Arrighi would reply that Marx's focus on the domestic side of accumulation kept him from seeing the interstate system as anything but a by-product, or what national debts continued to do in a system of states competing for capital.[978]

Marx was more accurate about the one thing Arrighi's Smithian frame cannot see, the class question. When a successor's state stands over capital and not under it, Arrighi can only call it a market economy that is not capitalism. Marx's question is which class the state serves, the question associated here with Preobrazhensky: whether the transfer of surplus strengthens collective control over production or the accumulation of private capital.

On China they were both predictive and both partly wrong, in opposite directions. Marx's 1853 prediction had the periphery's crisis detonating the core economies, and that crisis did not follow. The walls came down as the Manifesto predicted. What returns now is the direction he gave the spark, under a condition he could not have had: the core's lines run on industrial inputs China makes, and that dependence, not the 170 years, carries the comparison.

The line from Marx to the present has two intermediate links. Engels wrote to Kautsky in September 1894 that China was all that was left for capitalist production to conquer, and that capitalism, having conquered her, would be compromised in its place of origin, though his mechanism was a mass emigration of Chinese laborers to Europe after China's rural economy dissolved. Lenin wrote in March 1923 that the development of India and China had shifted to general European capitalist lines and must lead to a crisis of world capitalism

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[977] Karl Marx, Capital, vol. 3 (1894), chapter 27, "The Role of Credit in Capitalist Production."

[978] Karl Marx, Capital, vol. 1, chapter 31, on public debt; Karl Marx and Friedrich Engels, Manifesto of the Communist Party, part I, on the executive of the modern state.

as a whole.[979] Both predict the crisis. Neither settles the class content of what follows, and Lenin's version predicts the capitalist development of the East, the recomposition this work tests for.[980]

Arrighi in 1994 saw the East Asian archipelago, islands of capitalism rising above a sea of horizontal exchanges, thrusting their roots into the region's laboring masses without giving them the means to rise to sea level. In 2007 he named China a non-capitalist market economy in Smith's sense, accumulation without dispossession, the state controlling the capitalist class. He was wrong, on Marx's terms, to call the formation Smith's, because a market economy that makes its own proletariat by plan and holds capital under a party-state is the weak link's transitional form and not Smith's natural progress. The difference decides whether the successor is a fifth capitalist container or the first non-capitalist one. I find Marx's China the better guide to the class content, a question the tests have yet to decide, and Arrighi's the more accurate on the geography and the timing.[981] The archipelago is set out in the appendix.

The tests of Part Four also settle an account the framework has carried since 2010. The strongest critics of Arrighi's China book, Leo Panitch first among them, found its central weakness precisely here: markets conceived as instruments of states with the theory of the state left undeveloped, and China rendered non-capitalist nearly by definition because its development ran outside the core. The criticism was correct about the book. The answer must come from tests rather than definitions: whether market incentives remain subject to political control, whether wealth can escape that control, and whether any gains in public provision and workers' power endure. Arrighi's own criterion in that book, whether the capitalist class controls the state or the state controls the capitalist class, is what the exit

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[979] Engels to Kautsky, September 23, 1894, Marx-Engels Collected Works, vol. 50, 348 ("China is all that is left for capitalist production to conquer, yet the latter, by the very fact of having finally conquered her, will itself be hopelessly compromised in its place of origin"), also in Lauesen, The Long Transition, 323, in the On Colonialism translation; Lenin, "Better Fewer, But Better," Collected Works, vol. 33, 487–502.

[980] Lenin's article holds further echoes that this work notes without resting anything on them: the next conflict framed as one between the "counter-revolutionary imperialist West" and the "revolutionary and nationalist East"; a "second respite" hoped for from rivalries among the enemies, as between Japan and the United States; "extreme caution" as the weaker party's tactic, the East's strength not yet comparable even to the smaller European states; the West completing its development "through the exploitation of some countries by others," defeated Germany among them; and a list, Russia, India and China, that the Bishkek room nearly repeats, though in 1923 only Soviet Russia had a workers' government and today Russia and India are capitalist, China is led by its Communist Party and Iran is an Islamic Republic. His language of "civilised" and "Orientally backward" countries carries the developmental hierarchy of its time.

[981] Marx, "Revolution in China and in Europe," New-York Daily Tribune, June 14, 1853; Marx and Engels, Manifesto; Arrighi, The Long Twentieth Century, 23; Arrighi, Adam Smith in Beijing, chs. 1 to 3 and 12.

closure and the Evergrande override are evidence entries in. The claim survives or fails on the tests.[982]

On the limit they concur, and the concurrence is this work's title. Marx's sentence is that the real barrier of capitalist production is capital itself. Arrighi's is that the sequence of ever-larger capitalist centers has a built-in limit. Marx reaches the wall from production and Arrighi from the competition among states, and this work reads both as denying that a fifth capitalist container can form, a reading Arrighi himself left open in 2009. Marx's barrier would be reached if automation removed wage labor from its dominant role in production; the present build-out is a possible route toward it, not yet an arrival. Arrighi's is met by an incumbent so formidable that no capitalist power of a higher order can form against it, which is why this work asks whether China, the power that did form, is one. The thesis is the conjunction of the two sentences, and neither man could have written it without the other.[983]

On the anomaly Arrighi was more predictive, and this work extends him. He noted in 1994 that the flows Marx had described, by which declining centers claimed a share of the rising center's surplus, had run the wrong way in the 1980s, from the rising center to the declining one. The separation of military supremacy from productive leadership is the same finding from the other side. In Marx's sequence the money followed the production, so the anomaly is Arrighi's finding. The record's finding is the sequel: the successor's share of the flow that ran the wrong way, its surplus recycled into the incumbent's debt, shrank after 2013. The AI build-out draws international money, including Gulf capital, into American facilities while its equipment orders support production abroad.[984] It can prolong American financial centrality even as the war exposes the weakness of the military protection on which its investors also depend. Arrighi identified the separation between productive leadership and military supremacy. The separation is becoming harder to sustain: the incumbent's industrial weakness now limits what its still-formidable military can enforce.[985]

On the ending Marx was the more predictive and Arrighi the more exact. Marx's ending is the abolition of the wages system, and the AI companies' own promises aspire to eliminate

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[982] Panitch, Leo. "Giovanni Arrighi in Beijing: An Alternative to Capitalism?" Historical Materialism 18, no. 1 (2010): 74–87. https://doi.org/10.1163/156920610X489162

[983] Marx, Capital, vol. 3, ch. 15; Arrighi, The Long Twentieth Century, 19.

[984] OpenAI. "Announcing the Stargate Project." OpenAI, January 21, 2025. https://openai.com/index/announcing-the-stargate-project/ Bloomberg, Big Take, "AI's Giant Money Loop Is Feeling Very 2008," October 12, 2026. David Gura, with Shawn Donnan and Tom Orlik. https://omny.fm/shows/the-big-take/ai-s-giant-money-loop-is-feeling-very-2008 Author-held transcript; the following time ranges refer to that copy. The transcript's international financing discussion is at 1:00–7:01 and 10:06–14:20.

[985] Marx, Capital, vol. 1, ch. 31; Arrighi, The Long Twentieth Century, 15 and, for the bifurcation, the 1994 Epilogue, 354–56, self-cited at Adam Smith in Beijing, 7; Arrighi and Silver, Chaos and Governance, 285–89.

the need for human labor. Marx's credit system abolishing capital as private property inside capitalism is the two-trillion listing whose reported revenue includes purchases supported by some of its investors, the circular part that the test at the end of the chapter on the machine is written to separate from demand financed independently. Arrighi's three endings, which this work's branches adapt, are exact on the form. This work follows Arrighi's dating of the terminal crisis's onset to Iraq and its confirmation to 2008; the completion proposed in this 2026 edition is its own claim and answers to its own tests. Marx may yet prove predictive on the content, because the world market society Arrighi imagined still measures wealth in value, and for a decade the productive center has overruled that measure at the commanding heights, in particular acts against the property developers, the platforms and capital flight. Whether this becomes a different law depends on the state's continuing power to override profit and on where the surplus goes. The argument between them closes on the question mark in this work's title: whether the fourth autumn ends capitalist history through Arrighi's world market society or through the thing Marx described as the ultimate abolition, and whether the difference is one the successor's formation will be allowed to decide.[986]

APPENDIX

Comparative Cases

The envelope in three smaller states

Three smaller cases of the challengers' century, Cuba, Vietnam and East Germany, show from the other side what the Soviet and Chinese cases show: what mattered was the envelope opening at all, before the project had welded itself shut.

Cuba is the case of a patron's envelope opening early. The Bay of Pigs in April 1961 showed an exile invasion failing, and the Missile Crisis of October 1962 ended with Kennedy's assurance that the United States would not invade,[987] given in exchange for the withdrawal of the Soviet missiles. The Soviet umbrella held until 1991. The Special Period after the Soviet collapse was severe but did not weld the ideology shut. The constitutive war had not been Stalingrad-equivalent in human cost, and the Castro framework had been built partly against Soviet bureaucratism, with Che's critique an internal corrective from the founding generation. After 1991 the conditions did not include rehearsed decapitation across a border. Succession passed from Fidel to Raúl without being codified as hereditary, and Raúl handed off to Díaz-Canel, outside the family.

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[986] Marx, Capital, vol. 3, ch. 27; Marx, Value, Price and Profit; Arrighi, The Long Twentieth Century, 23–24 and 356; Arrighi and Silver, Chaos and Governance, 21–22.

[987] Kennedy, John F. Letter to Nikita Khrushchev, October 27, 1962. Foreign Relations of the United States, 1961–1963, vol. XI, Cuban Missile Crisis and Aftermath, document 95. https://history.state.gov/historicaldocuments/frus1961-63v11/d95

Vietnam is the case of normalization. The constitutive war lasted some 30 years, from 1945 to reunification in 1975, while the American air war across Indochina dropped more bomb tonnage than U.S. aircraft had dropped in the Second World War.[988] Vietnam had no weapon of its own, the Sino-Soviet split made its patrons unreliable, and China invaded it in 1979. Yet Doi Moi, the economic reforms Vietnam began in 1986, looks more like Reform and Opening than the alternative trajectories. The war ended in clear victory and not in an armistice without peace, and the victory of 1975 let a recovery open gradually. The leadership was collective, with no family succession to Ho Chi Minh even attempted. The principal enemy normalized over a generation: diplomatic relations were restored in 1995, nine years after the reforms began, and the relationship today is a soft alignment against China. Vietnam gained that room through normalization, China through deterrence.

East Germany is the inverse case. The state was founded in 1949 under Soviet occupation policy, with no constitutive revolutionary war of its own. The tradition of the Spartakists and the German Communist Party predated the state, but the state itself was an occupation outcome. The Stasi was organized under Soviet security tutelage. The Group of Soviet Forces in Germany held the ground. Honecker's cult was bounded and personal. When Gorbachev signaled in 1989 that the Soviet umbrella would no longer extend to suppressing protests, the state collapsed in months.

Arrighi's archipelago

Arrighi's account of East Asia supplies a control case for the claim that China's productive base can sustain a different order. Arrighi's reading of the early 1990s described East Asia as a capitalist archipelago, every island dependent on the United States for military protection, energy, food, and the profitable disposal of its manufactures. Its islands of centralized profit rose above a sea of low-cost labor into which they thrust their roots "without providing them with the means needed to rise to or above 'sea level.'" The dollar's devaluation after 1985 showed what that dependency cost the creditor: Japan's dollar lending was repaid in cheaper dollars. The People's Republic has reduced or changed each term of that problem through domestic production, reserves and deterrence. Energy, food and security are largely internalized, the strategic reserve was demonstrated at half-rate import endurance through a closed strait, the laboring sea was raised and not tapped, and the islands' export dependency gave way to the continental formation the archipelago could never assemble. Exposure remains: China still imports much of its oil and part of its food, and its export surplus still depends on foreign buyers. In the archipelago frame, the claim that the productive base can sustain a different order is the claim that the sea learned to stand.

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[988] U.S. Congress. Congressional Record, March 23, 1972, 9821. https://www.govinfo.gov/content/pkg/GPO-CRECB-1972-pt8/pdf/GPO-CRECB-1972-pt8-2-2.pdf The contemporary comparison reports more than six million tons in Indochina against about 3.1 million tons dropped by U.S. forces in World War II and Korea combined.

Russia under Lenin's test

The case of contemporary Russia clarifies what Lenin's test does. The reading of Russia as imperialist cites capital export through Gazprom, monopoly concentration in extractive industries, the Crimea annexation, the Wagner network in Mali and the Central African Republic, and the Ukraine war as imperial sphere maintenance. The opposing reading cites capital export small relative to the actual imperial powers, finance capital weaker than productive-extractive capital, and a foreign policy oriented toward strategic-defensive objectives against NATO encirclement. The structural reading splits the difference. Russia is a hydrocarbon rentier with imperialist features on some criteria: capital export, monopoly concentration, and a territorial mechanism in the near-abroad. Its finance capital is weak and not dominant, and this reading calls its posture defensive on the strategic axis, a judgment to be weighed against the invasion, the annexation and the Wagner operations. Russia is some-but-not-all on the criteria, and a partial match to Lenin's economic features does not by itself settle the character of a particular war.

The limits of the bubble image

The bubble is a containment image from a world of discrete national containers, and this work's own argument is that the substrate is a transnational property of flows that Beijing anchors and does not contain. The bourgeois order was never inside France either; France was where it crystallized first. So the successor form may not be a bubble at all, and whether the topology dissolves under compression and climate into something the 1500 frame was not built to name is the open question of what order could replace the present one.

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