

**WORLD SYSTEM THEORY AND KEYNESIAN  
MACROECONOMICS : TOWARDS AN ALTERNATIVE  
EXPLANATION OF THE RISE AND FALL OF THE  
CAPITALIST WORLD SYSTEM**

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**ABSTRACT**

A mechanistic and sometimes dogmatic interpretation of capitalism has kept world systems theory from attaining practical relevance for social movements which try to combine the democratic management of society with efficiency, including the market. By using Keynesian macroeconomics as a basis and integrating it into a long-term Annales type historical perspective, the latter inspired by the work of Karl Marx, major aspects of these theoretical shortcomings can be addressed. Profit depends on rising mass incomes in contrast to rent which does not. Capitalism is, therefore, the unintended consequence of the success of the lower strata. Capitalism as a type of happy accident is expansive, but can be transferred to other societies only if the empowerment of labour is successful. In the current process of globalisation there remain various risks whereby labour becomes disempowered, both in developing and developed capitalist economies. In addition, underdevelopment hits back and disempowers labour in the most technically developed countries. As such, a global strategy of labour is required which may, nonetheless, be implemented locally, as exchange rate adjustments protect the socially successful cases from destruction through a race to the bottom. The necessity of such a strategy is based on policies currently being implemented in an attempt to relaunch growth and overcome crises which are characterised by a narrow and empirically unfounded dogmatism. Such a mobilisation will not, however, threaten the income and employment position of workers in the North, via the demands and higher competitiveness of workers from the South, as differences in labour costs are mediated through the exchange rate.

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Capitalism is associated in most mainstream discussions with exploitation. It raises labour productivity and increases surplus production so that polarisation increases, even if some improvements in the conditions and material well being of labour are accepted in order to maintain “system stability” in the interest of the dominant capitalist class and its “organic allies” i.e. the middle strata of various forms. Consequently, the transition to capitalism depends on the availability of surplus. A historical blockage of this transition can be explained by the absence of sufficient surplus or the incapacity of the surplus appropriating class to use the surplus for accumulation. Accordingly, this can be explained by specific characteristics of the dominant class as accumulation is normally expected to provide ultimately higher returns. In terms of the standard German historical school of thought, or in Marxist theory, accumulation is conceived of as depending on the availability of a surplus and the often poorly explained historical process, in the wake of which, capitalists emerge as a new surplus appropriating class. Their superior capacity for generating new surpluses on the basis of a surplus already appropriated, ultimately provides them with the power to remove the fetters which other surplus appropriating classes had been able to impose on them. Capitalism is hence the result of a process of civilisation<sup>1</sup> which pre-capitalist classes can delay but not definitively block. The process of improving mastery over nature injects into the existing social structure new resources and opportunities which lead to new arrangements for exploiting labour. In the wake of this process, new practices by social classes emerge: new developments in the productive forces destroy the inflexible relations of production in Marx’s continuous process of the rise and ultimate defeat of classes that were initially progressive. Where capitalism has not yet become dominant, or capable of dissolving pre-existing arrangements, it will ultimately be able to generalise capitalist relations of production, even if pre-capitalist structures happen to remain in place, albeit in a

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<sup>1</sup> I mention as examples Elias 1959 and Ribeiro 1971.

subordinate and instrumentalised manner.

Where capitalism has crossed this threshold and is generalised it continues to be characterised by intensifying contradictions which lead to revolutionary situations with the potential for transition, but also to the failure -as evidenced by a great deal of 20th century history- of that theoretically deduced and predetermined revolutionary actor: the working class. In situations of 'wrong consciousness', it has been possible for an alienated working class to fail to exploit the potentiality of these contradictions which capitalism presents. History then ends in "barbarism" rather than making a transition to socialism.<sup>2</sup>

In the model of historical materialism developed on this basis there is an assumption about the automatic character of the emergence of capitalism which lends credibility to its other side, the expectation of the equally automatic character of its demise. By making capitalism inevitable, historical materialism also inscribes into the "laws of history" capitalism's own demise.

Despite a basically Marxist approach to society and large parallels in viewing the past historical process, my model differs from historical materialism: it rejects the automaticity of the emergence of capitalism and its ultimate crisis. As such, the practical issue is not the overcoming of capitalism but its continued adaptation to the challenge of increasingly satisfying mass needs-which is a social reformist and not a revolutionary perspective. I do not deny, here, an indebtedness to a Marxian analytical perspective although I reject many elements, including major tenets, of Marx's economic theory.

My essential point of divergence from Marx consists in a Keynesian theory of profit. Following Marx, capitalism depends on profit, and profit is a special type of surplus which is appropriated under conditions approaching perfect competition in perfect markets. Profits, however, can be earned in competitive markets only if there is "enough" demand. Therefore, the appropriation of surplus as profit requires rising demand, which is not automatically provided by the capitalist system as assumed by Say.<sup>3</sup> In addition, the available surplus is not automatically used for investment, and whether it is "wasted" on

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<sup>2</sup> Socialisme ou barbarie, as a subtitle in: Castoriadis 1973.

<sup>3</sup> Marxists and Marx seem to agree with Say as profit which can be produced is also produced. Rosa Luxemburg disagrees and bases this on a theory of stagnation which has very Keynesian traits, cf. Luxemburg 1912: 94 ff.

luxury consumption, or used for military spending or investment, does not depend primarily on culture but on power relations within a given society. Therefore, rising demand has ultimately been provided by rising mass incomes through the empowerment of the masses -as proletarianized workers, or as petty commodity producers- and this idea is the essentially Keynesian aspect of my approach.

Capitalism depends on the empowerment of labour which does not result from technical progress, i.e. the mastery of man over nature. Consequently, technology transfers and financial resources may not necessarily lead to a transition to capitalism. Capitalism remains unstable under the condition of the empowerment of labour, as its fragmented dominant class has no possibility to overcome its immediate interests -determined micro-economically- and of following its true long-term interest -determined macro-economically- i.e. maintaining control over the conditions of the system. This is associated with a representation of capitalism in the ideological sphere which does not take into account these macro conditions. The macro conditions of capitalism are typically not represented at the discursive level, especially as these conditions are imposed by the social practices of the working class which itself fails to strive for ideological hegemony in terms of a counter-interpretation of capitalism which would reject the interpretation of the ruling capitalist class. As long as labour remains both vulnerable and powerful enough to impose its “Brechtian” preference for “food before morale”, its domination by the ruling class via a (false) perception of capitalism may be kept in check by the real social processes of the working class, a stance that Lenin had criticised as “trade-unionist” i.e. the “ouvrierist conscience” (Lenin 1905: 435-46). Therefore despite increasing “prosperity” labour may, nonetheless, become disempowered by tendencies which develop within “central” capitalism, such as: post-materialism at the discursive level, an increasing propensity to save at the socio-economic level, an increasing social differentiation at the socio-structural level, as well as “globalisation” at the world economic level which taps cheap labour on the world labour market through devaluation (even when it may be paid high real wages).

On the basis of these tendencies I argue that the actual issue of preserving existing levels of the empowerment of labour requires its generalisation at the global level. This also requires an “ideological equilibrium” in favour of an increasingly differentiated “camp” of

labour. The alternative consists in the transformation of capitalists into new rentiers under formally democratic conditions with overarching ideologies which impose the acceptance of inequality and exploitation in the name of preserving democracy.

The importance given to the unintended results of labour scarcity implies an important divergence from the Brenner solution to the transition to capitalism: the “subalterns” may be able to impose their personal freedom due to political factors and a degree of organisation (Brenner 1976: 57) without an alternative overarching social project just by blocking the dominant strategy of restricting personal liberty, the latter inhibiting the play of market forces. However, even if this mere political resistance can be sustained in the long term it matters only on the basis of labour scarcity. When the enhanced prosperity of society finally removes scarcity, the political dimension has to grow and take over the capacity of “appropriating” the society by society, i.e. by managing society and economics democratically or what could be called democratic appropriation.

This article presents a essentially Keynesian argument as follows: on the basis of simple macroeconomics, the link between net investment spending (the basis of profit) and rising demand (ultimately rising mass incomes) is established as a configuration which is intrinsically unstable. This configuration is not the necessary result of an inevitable historical process of development or civilisation but accidental in the sense that many possible causes contribute to the emergence of a configuration where labour is empowered so the imposition of rent is reduced. As capitalism ceaselessly searches produce products more cheaply -a mechanism basically triggered by comparative advantage- it penetrates other societies without creating the same favourable configuration for labour, so that underdevelopment, and as a reaction to it, rent appropriation and centralisation occur. The result is the existence of strong forces in the actual processes of globalisation, as well as in industrialised countries which disempower labour and therefore threaten capitalism. This article presents an overall approach to this dilemma, the comprehensive character of which requires the inclusion of a large variety of problematiques. Corresponding to Marx’s concept of totality, in a given structure any particular element can only be adequately presented by relating it to a universal perspective of which it is a part. Here I will therefore concentrate on the main aspects of a

model on which I have been working for some 30 years (Elsenhans 2007, 1979), and which it is hoped will form the basis of a multi-volume publication.

As such, this article opposes the major approaches in world system thinking which currently are predominant. Actual world systems thinking is characterised by the absence of coherent economic explanations. Where economic foundations to an argument are proposed they draw on relatively crude versions of Marxism. This lends weight to a rejection of any explanations based on economic or politico-economic foundations and favours an alternative approach along the lines of the “cultural turn”.

## **1- PROFIT DEPENDS ON INVESTMENT SPENDING**

Profit is a specific form of surplus which does not just imply the capacity of the powerful to exploit labour. Markets existed long before capitalism. Already in the 18<sup>th</sup> century there were many non-European societies with high levels of monetisation (Deyell 2010) and “marketisation” (Bengal) which, even despite manufactured exports (Mukherjee 2011: 144) or despite being free from domination by European colonialism, were unable to achieve a transition to capitalism. Only under capitalist conditions is the bulk of economic surplus distributed via nearly perfect markets, although this does not depend on the contagious spread of market regulation, but on something else.

The predominance of profit is an important distinction between capitalism and all other modes of production: it implies that access to profit is based on efficiency in using scarce resources (including labour), on attending to the demands of customers, and on reinvestment of profit in innovation. These microeconomic conditions for profitability determine the share of each competing enterprise in the total amount of profit, but it does not determine the total amount of profit available for the profit-making capitalist class.

In standard Keynesian macroeconomics, total profit depends on spending on investment goods<sup>4</sup>. In a theoretical capitalist society there are only two classes, workers and capitalist. All workers, including the managers, receive wages (W) which they spend in their entirety on

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<sup>4</sup> Note, here I make the usual simplifications for the sake of clarity.

consumption goods. Capitalist enterprises (and their owners, including their managers) receive profits which they do not spend on consumption goods. The proceeds from the sales of consumption goods equal the wages ( $C=W$ ). If producers in the consumption goods industry make a profit above the wage bill ( $W_c$ ) incurred in the production of wage goods including their inputs and replacement of equipment (amortisation), there have to be wages which have not been earned in the production of these goods. If consumption goods producers can sell the total of their production at a profit, there have to be wages which have not been paid in the production chain of the consumption goods producers. If the government sector and foreign trade are in balance, these wages can only have been paid to workers who were employed in investment goods production at a production level higher than the replacement of worn out equipment, hence net investment. Net investment goods production (gross investment minus amortisation) determines the amount of profit.

Under the limitations of the model, total sales of the consumption goods producers correspond to the total amount of salaries in the two departments  $C=W=W_c+W_i$ . Each single consumption good leads to labour costs and inputs costs which in turn also represent costs of labour and inputs expended. All products which enter consumption goods production -the steel used for forks just, or the flour used for bread- are counted in national income statistics as part of the consumption goods chain. Hence, by definition, all costs associated with chain of consumption goods are represented by wages, as all inputs can ultimately be reduced to the cost of the labour which was necessary for their production so that  $C= W_c+P_c$ . From  $C=W_c+W_i$  and  $C=W_c+P_c$  follows  $W_i=P_c$ .

As by definition  $I=W_i+P_i$ , and hence also  $I=P_c+P_i=P$ .

The consumption goods producers may make a profit on their capital ( $K_c$ ) which corresponds to a certain positive rate of profit  $\pi =P_c/K_c$ . Investment goods producers will not engage their own capital ( $K_i$ ) in investment goods production if they do not make a rate of profit comparable to consumption goods production, as individuals commit money only to the most profitable uses. Investment goods producers cannot be kept from entering consumption goods production as they possess the necessary technical knowledge in the form of their capacity to produce machinery for consumption goods production. They will either leave investment goods production, creating scarcity

of investment goods, or charge prices at which profit rates in investment goods production are comparable to the profit rates in existing consumption goods production.

Capitalists themselves determine the amount of profit (Kalecki 1971: 13) in the case of competing spending on consumption goods through forced savings in the form of price rises for these goods (Keynes 1936: 79–81, 1976: 171). Physically, labour can make use of consumption goods only. If total consumption demand exceeds the capacity of production for the consumption goods industry, any further increase in monetary resources for consumption cannot increase real consumption but triggers additional investment, hence additional wages in investment goods production, in order to increase production capacity. Consumption by labour cannot threaten profit in the real economy regardless of the level of income at its disposal.

It is investment spending which is the decisive variable for the labour market. Keynes has argued, therefore, that the management of the global level of investment should not be left to private enterprise with its parochial outlook on specific markets, but rather it should be a state responsibility, even undertaking spending on non-productive activities in order to trigger off investment spending via additional demand (1936: 131). This explains why Keynesianism is less concerned about the efficiency of state spending. State spending is justified through its impact on market guided investment spending, not on its own contribution to the rise in productivity.

## **2- PROFIT DEPENDS ON RISING MASS INCOMES**

Investment spending requires additional consumption, meaning additional mass consumption under capitalist conditions and, hence, the empowerment of labour.

In his critique of Marx's law of the Tendential Fall in the Rate of Profit, Bortkiewicz (1907: 455–7), followed later by Okishio (1961), and confirmed by Samuelson (1972), rightly argued that new technology under capitalist conditions can only be introduced if it reduces unit costs for existing products (or comparable products which replace them). The production of totally new products which address new needs and do not replace older products already implies rising incomes. In the production of old products, the Bortkiewicz criterion implies that the rise in productivity is always sufficient to



compensate for the effects of the rise in the organic composition of capital on the rate of profit, as long as the natural conditions of production do not deteriorate. With any innovation, the total volume of direct and indirect labour (employed in investment goods production) decreases in relation to the volume of production. With a stable wage bill and hence stagnant real wages, any rise in the organic composition of capital implies a rising rate of surplus.

Neoclassical, classical and Marxist economists assume that rising surpluses facilitate accumulation and contribute to growth. On the basis of the Bortkiewicz argument, this can be proven to be wrong, and with it, Lenin's theory of accumulation (1899: 42) on the basis of the demand from department I (investment goods industry). As capitalists are punished by financial losses following from inefficient investment they opt to avoid investment in order that the productivity of existing capital remains high. In the absence of rising wages, accumulation, therefore, implies an explosive growth of production.

The rate of growth in capital stock (K) implies a positive rate of growth in net output (Y). We assume stagnant real wages (W) and stable availability of labour. Net output equals wages (W) and investment (I). The increase in production can be described as  $yY = wW + iI$ , where the small letters indicate the growth rates of the aggregates described with the capital letters. With  $w=0$ ,  $i > y$ , and consequently  $k > y$  and, at a constant capital productivity,  $k_{t-1} = y_t$ . According to Bortkiewicz, because of this relation there is  $y_1 < y_2 < y_3$  with non-declining capital productivity (and a stable or declining capital-output ratio  $K/Y = b$ ), . From period to period, the effect of  $i_1 < i_2 < i_3$  also implies  $k_1 < k_2 < k_3$ , and  $k_1 = y_2$  and  $y_2 < y_3 < y_4$ . with constant capital productivity. The relation that if  $y < i$ , also  $y < k$  is proven by the following equations. If  $i > y$ , the share of investment in national income increases from period to period

$$(1) I_0/Y_0 < I_1/Y_1 \dots I_{t-1}/Y_{t-1} < I_t/Y_t$$

As the capital stock can be defined as net product (Y) multiplied by the capital-output ratio  $K/Y = b$ , the inverse of the capital productivity

$$(2) K_0 = bY_0; K_1 = bY_1 \dots K_{t-1} = bY_{t-1}, K_t = bY_t$$

From (1) and (2) at constant capital-output ratio we get, because of  $i_t > y_t = k_t$

$$(3) I_0/K_0 < I_1/K_1 \dots I_{t-1}/K_{t-1} < I_t/K_t$$

As  $I/K$  is the rate of accumulation  $k$  (3) implies

$$(4) k_1 < k_2 < k_3 \dots k_{t-1} < k_t$$

On the basis of realistic values for the initial share of investment in total production (around 10%) and the initial capital output ratio (between 1 and 2), the required increase in labour productivity, hence, technical progress at a constant working population and number of output hours becomes unsustainable because of the rapid exhaustion of available new technologies which can fulfil the Bortkiewicz criterion (Elsenhans 1986: 269-271, Elsenhans 1994: 423-427).

Accumulation can go on if productivity increases sufficiently, or if the surplus for financing accumulation is limited. Under capitalism, financial surplus is limited to the extent of technical progress. Empirically, this is shown by the relative stability of the capital-output ratio<sup>5</sup>. Historically, it can remain within narrow limits in capitalist regimes when compared to the corresponding coefficients in centrally (real socialist)<sup>6</sup> or even partially (state-class dominated) planned economies of the East or the South<sup>7</sup>. The external appearance of capitalist production as characterised by the use of more and more expensive equipment is not evident: the increase in capital stock measured statistically indicates the value of the capital stock in prices, i.e. monetary values, and not in labour values. These monetary values increase because with rising real wages a capital good which requires a given amount of labour time, and hence can be assumed to have a given labour value, becomes more costly in monetary terms. By deflating the capital stock of Germany by the real wage index, the value of the stock of capital does not increase. This follows the constant capital-output ratio when observing the constant share of wages in national income.

Modern “endogenous” growth theory has integrated this Keynesian idea of a stable capital-output ratio into a neoclassical framework by attributing capitalist growth not to increases in physical capital (which capitalists can own) but to labour skill (which capitalists have difficulties in appropriating as property)<sup>8</sup>. This explains the difficulty in defining “human capital” (the concept under which these skills are integrated into modern growth theory, Blaug 1976: 839; Groot &

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<sup>5</sup> Kendrick 1961: 166; Helmstädter 1969: 48-91; Domar 1961: 101-115.

<sup>6</sup> Andreff 1990: 17. With further literature Elsenhans 2000b.

<sup>7</sup> Benelli 1979: 55 ff.; Chakravarty 1984: 845; Hashim 1991 3; O'Donnell 1978: 21 ff. has made this the basis of his theory of the authoritarian turn in his bureaucratic-authoritarian state.

<sup>8</sup> As an example among many others: Cesarotti 1999: 788 f.

Oosterbeek 1994: 320). As such, capitalist growth is neither “capital intensive” nor does it exhaust capital. The “residual” to which modern growth theories attribute growth (Denison 1967), is the result of greater productivity from more innovative or creative workers than average workers. These innovative workers are sufficiently numerous so that they are unable to capture the result of their own productive efficiency in the form of personal income because such labour, i.e. their own labour, is not scarce. This may be due to the fact that there are many who prefer this type of work over tedious work even if they are not “paid” the difference in efficiency in relation to non-innovative workers via correspondingly higher real wages.

Limits to higher surpluses imply higher mass incomes and this favours a particular type of technical progress<sup>9</sup>. Technical progress may be oriented towards the excellence of the product as represented in the work of an artist, but it may also strive for a reduction in the cost of producing large quantities of a standardised item. The search to reduce the cost of an item by mechanisms which can be replicated precedes capitalism, e.g. the pottery wheel or the handloom. An increase in mass demand for items increases motivation to develop machines which allow for the rationalisation of production. Initially, virtually all new products are a luxury. Its consumption is democratised when entrepreneurs perceive a large enough potential demand that costs can be brought down through standardisation and production in large series. Hence capitalist technical progress is favoured if consumption is focused on an increase in the variety of standardised products. It is mass consumption that propels this process.

Capitalist growth depends, therefore, on rising mass consumption in order to limit the growth of surplus. Surplus is not only available for investment but also for waste because the amount necessary for investment is limited. The appropriation of surplus in the form of rent implies distortions of the productive apparatus in favour of luxuries and the protection of the privileged class from competition. Rising mass incomes, however, lead to increased potential for the production of investment goods which provide higher levels of employment. This in turn contributes to higher overall rates of total demand via technical progress in the form of mechanisation and standardisation utilised in large scale production.

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<sup>9</sup> Because of economies of scale, cf. Kaldor 1972: 1245.

The hope of providing the additional demand from other economic formations, such as in Rosa Luxemburg's (1912: 274) natural economies (initially inside, and then outside during the imperialist phase) can be fulfilled only to the extent that these non-capitalist economies are able to increase purchasing power from the capitalist economies or get loans from them. The latter is only a temporary possibility because of the ultimate limits to indebtedness.

Profit may be regarded by the critics of capitalist exploitation as a surplus which is extorted from the oppressed masses as in the case of rent, and this is a major theme in the standard version of anti-capitalist rhetoric. In reality, capitalist profit can be appropriated by the rich only through the utilisation of resources for investment. Obviously capitalists try to overcome these obstacles to enrichment, and therefore they rarely defend capitalism but prefer mechanisms to reduce competition and thus generate an opportunity to increase rents.

The basic condition of capitalist growth is hence described as follows: (i) capitalist investment takes place on the basis of improved technology; (ii) this leads to an increase in the productivity of labour; (iii) the consumption of the additional output depends on rising mass incomes; (iv) rising mass incomes limit the surplus available for investment and present new opportunities for investment spending through potential new employment (and production) of physical capitals.

This does not imply that capitalists themselves impose such limitations on the available surplus, it simply means that they cannot avoid it. This inability to block the empowerment of labour is a precondition for the transition to capitalism. Such empowerment may be favoured by political conditions, but this author, at least, doubts that merely political empowerment can last. Political pressure always implies organisation and the operation of the "iron law of oligarchy" (Michels 1925: 182 f.) to which labour can respond only by withdrawing its participation. Withdrawal is a condition for being heard (Hirschman 1975: esp. 35) as long as participation is necessary within hierarchical organisations for making the importance of numbers felt against resourceful minorities. Marx's critique of the freedom of labour in a capitalist society presents a key. The doubly free proletarian (Marx 1867: 742) will reject bonds of dependence (but also protection) as an unfree labourer only if he has a reasonable chance of finding a job. This condition is fulfilled if average skilled

labour succeeds in regularly producing more than its cost of subsistence/reproduction. When an exploiter can use the fruit of a worker's labour for purchasing other labour, the worker will be employed without pleasing the employer. The simple fact that his product sells at a price where the employer can still purchase more labour power is the basis of the employment of such a worker, which is to say he can be exploited. If the employer can use the fruit of worker's labour only for his own consumption, the worker will be in the situation of Smith's (1776: 368) dancing girls dancing for the non-innovative landlord, and have no negotiating power of their own<sup>10</sup>.

Apart from political power, labour can be considered as empowered when even the least productive labour yields a surplus for those in control of the means of production. Those in control of the surplus may maintain less productive labour if it produces less than its product yields on the market, as it may provide them with non-economic services, as characteristic of the structures where hierarchical positions do not depend only on economic resources: i.e. most pre-capitalist societies. If such non-economic interests in the use of labour (not for production of marketable goods but personal services) are no longer pursued (e.g. because of intensified economic competition in the wake of the penetration of capitalist mechanisms from the outside) those in control of the surplus may, however, also shed marginal labour for economic reasons as argued in Marx's theory of primitive accumulation (1867: 744). In that case, marginal labour which cannot produce more than its cost of reproduction either starves or is politically powerful enough to impose new forms of access to the means of subsistence. So while political power may be a complementary factor it has a less decisive impact on the empowerment of labour than a marginal product higher than the cost of reproduction.

The model used in this argument is based on Keynesian macroeconomic theory. It does not, however, have the same focus as almost all post-Keynesian thinking which is oriented around the problematic of how monetary policies, and hence governments, can maintain effective demand at a required level. It does not participate in the debate on the operation of the financial sector. Admittedly, there are a large variety of mechanisms which can be used to temporarily

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<sup>10</sup> This would be an illustration of Sraffa's systematisation of product categories (1976: 26).

support demand deficiencies under unstable conditions. But the Keynesian argument for the active role of money does not imply that monetary policy is capable of overcoming an effective demand deficiency in any possible situation. Historically, monetary policy has demonstrated greater efficiency in preventing an economy from overheating as opposed to stimulating investment, that is to say, it has been more effective in slowing demand rather than promoting it. My model is based on the assumption that there are situations where such techniques are not sufficient to overcome socially conditioned structural imbalances.

In criticising the capture of Keynes's innovative contribution by monetary Keynesians such as Hicks or Harrod, Hamouda (2009: 12) shows that Keynesianism is not primarily a set of instruments to influence demand via monetary and financial policies, but aims at increasing productive investment. Hamouda's argument parallels my own when he states: "the propensity to consume is the driving force to ensure a sufficient level of investment," and concludes that consumption has to be strengthened by the distribution of income towards those with lower incomes.

Because I share Hamouda's rejection of the centrality of managing the demand for investment technically, I have deliberately chosen a model which is methodologically simple and which keeps open for discussion questions about the social and political conditions for mechanisms which are primary for maintaining appropriate levels of effective demand, and hence for the political and social conditions of capitalism. At the meta-theoretical level, this implies that the capacity of the economy for self-guidance depends on its embeddedness in social and political conditions which do not automatically emerge from the economy, nor are they necessarily maintained by it. Here is the link between economy and political system -this central aspect of political economy- and hence the meta-theoretical basis of the whole argument presented in this contribution.

### **3- ON THE BLOCKAGE OF PRE-CAPITALIST FORMATIONS : CAPITALISM IS NOT PRODUCED AUTOMATICALLY BY A PROCESS OF CIVILISATION ACCOMPANIED BY BETTER TECHNOLOGY AND ENHANCED SOCIAL STRATIFICATION**

Social differentiation and technical development as described in the history and the typology of pre-capitalist societies will not necessarily lead to the empowerment of labour and capital accumulation.

At low levels of technical development, marginal productivity will fall below the cost of subsistence. As population grows more people can be supported only by increasing the number of workers who are employed on fertile land or by shifting part of the labour to less fertile land where the result of labour is even lower. An illustration of this would be the periodically occurring famines in pre-capitalist societies. Labour is scarce if marginal product in agriculture is higher than the cost of reproduction so that even marginal labour yields a surplus. Even the least productive worker will be sought after by those in control of complementary means of production in order to increase their resources. Hence, capitalism depends on the removal of marginal labour.

Capitalism is not a “necessary” product of an evolutionary process of the development of productive forces (the increasing control of humankind over nature), because even cumulative technical progress does not necessarily lead to the empowerment of labour, as not all forms of technical progress lead to an increase of the marginal product of labour in the production of mass consumption goods resulting in increased scarcity of labour and greater negotiating power.

For my demonstration I will make a number of very simple assumptions for which anthropologists universally find confirmation. The will of humans is devoted to reducing effort in relation to the outcome of their endeavours; and humans normally prefer their kin to other humans, including members of the group they belong to.

With the transition from hunting and gathering, surplus inevitably has to emerge, because producers cannot reliably forecast conditions such as the weather. In order to be on the safe side, producers have to plant more fields than are needed for a normal harvest so that the actual harvest will produce enough for subsistence. Therefore, on average harvests exceed the level of subsistence. The resulting surplus

is not simply discarded, however, and its management requires some sort of social organisation where cooperation can be expected to lead to economies of scale, to cooperation in storing and protecting a surplus, and this even if there is no cooperation in production.

Humans distinguish different types of work as characterised by requiring different amounts of effort. Cooperation with whatever specialisation therefore requires the solution of the problem of reducing different types of concrete labour to equally demanding abstract labour with respect to time and effort. Under capitalism, the measurement of such differences is assumed to be realised through the labour market. There is no such labour market in pre-capitalist societies; just like in socialist economies standards of comparison have to be negotiated politically. Furthermore, opting out from cooperative work is costly if the cooperation allowed for economies of scale. Opting out becomes attractive only if differences in remuneration become utterly unfair. There are many solutions where the less favoured members are still worse off if they opt out.

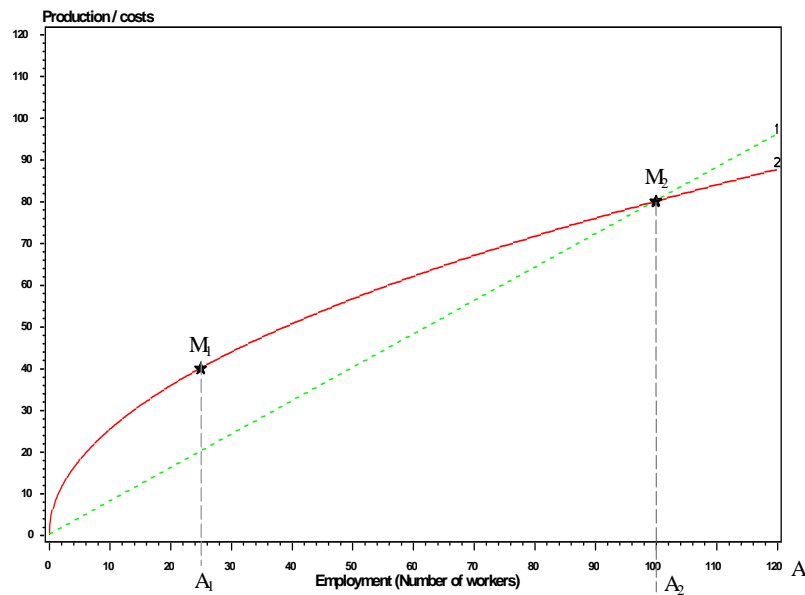
The preference of humans for those close to them, often kinship, explains why rights -property rights in connection with resources like land or water, but also “rights” in social relations as offices- are claimed to be hereditary, so that the distinction and any differences become entrenched and even recognised by others. Kinship as a system of relations is more reliable than other systems of relations in that social roles in kinship are less likely to be challenged. Kinship thus offers a fairly stable system of intergenerational transfer of acquired privileges or “rights” which leads to a general preference for hereditary succession.

In struggles based on claims with difficult exit options, many criteria may be proposed in order to increase the particular claim of any participant in the negotiation. The literature on stratification mechanisms in African communitarian structures is full of them: age, gender, lineage, etc. The early development of property rights as the right to usufruct of some asset in nature -such as a property rights to nearby land or water which reduces time spent on transport- is an example of the attempts to stabilise privileges once they are acquired. They allow the limitation of influence by other more powerful claimants and their right to demand services which are deemed as unfair. By this way property rights simplify the negotiations which take place to establish rates of exchange.



Those who benefit from a criterion for privilege will tend to sanctify it by linking it to the non-visible world. Comte's (1963: 32) perspective of magic in early stages of development is still relevant where it is related to low levels of control over nature. Conquest and magic are vehicles for enhancing existing distinctions, as well as for establishing new distinctions and providing stability and control over existing distinctions.

As long as economic activities are oriented predominantly towards food production, the importance of the complementary factor of production of "fertile land" (including irrigation) implies that increases in labour input lead to a declining rate of growth in productive output. Production growth diminishes in relation to population growth. This aspect is formalised in my marginality cum rent model (Elsenhans 1994: 393–8, 1995: 195–9).



With population growth marginal product decreases. Additional labour produces a surplus up to the level of activity A<sub>1</sub>. The product of additional labour falls below the cost of reproduction at any level of employment beyond A<sub>1</sub>. Those who produce less than their cost of reproduction are called marginal. Marginality means the existence of a considerable amount of labour which produces less than its cost of

reproduction. The level of population where marginal product equals the cost of reproduction is called the threshold of marginality. Population growth cannot exceed the level  $A_2$ ; beyond this level some population will starve even in the case of an egalitarian distribution of the output of production. There may be people between  $A_1$  and  $A_2$ , hence marginal people, because they are subsidised. Highly productive labour produces a surplus beyond its own needs of reproduction even with a small amount of labour time. This surplus can be used for the subsidisation of an excess of population beyond the threshold of marginality. Some have better access to this surplus; some are excluded and may therefore rely on the patronage of those with access to the surplus.

Under most plausible conditions, those who enjoy privilege will find allies for stabilising hierarchy and inequality among those at the bottom of society for economic reasons. The threshold of population growth may be crossed because there are many converging interests in population growth. Parents expect from their children support in their old age. Parents do not know how many of children born will survive. For those in control of the surplus, clients fed from surplus represent power. For the marginals, this surplus represents the right to survive. Instead of destroying it periodically in order to appease the invisible world, they offer permanent services to those in control of this very worldly surplus and their gods (and ancestors).

The ruler as a ritual leader has to emerge on the basis of an alliance between the marginals and those in control of surplus. This is illustrated by the transition from communitarian lineage-based modes of production -as existed in Oceania or Subsaharan Africa (Goody 1963: 8; Southall 1988), -to more hierarchical tributary modes of production- as seen in Asia with specific forms of transition as discussed by Stein<sup>11</sup>, and the controversy on the extent of power and violence in this process of strengthening of hierarchies. The theories of Oriental despotism, the Asiatic mode of production renamed tributary modes of production, and of the "Ancient Empires" are all attempts to assemble highly inegalitarian pre-capitalist structures in the most different geographic regions and cultural settings as a single type and to distinguish them from the other pre-capitalist structure-European feudalism (Abrahamian 1975; Bertkay 1987: 298). These

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<sup>11</sup> Kulke 1982: 237; Sharma 1989; Stein 1997: 148.

non-feudal structures are considered as rather immobile and subject to incessant ups and downs in the rise and fall of empires and dynasties, even if they may be characterised by differences in their systems of incentive for those in control of the surplus (Moseley & Wallerstein 1978: 266). European feudalism is seen as open to innovation and change and allows something new to mature, so that it breeds capitalism within its lap. It is assumed that there is something specific in the superstructure of European feudalism which was lacking elsewhere, especially in “despotic” Asia.

This distinction between feudalism and all other pre-capitalist class societies, which for convenience I call tributary modes of production (as the surplus is appropriated by discretionary political intervention by the beneficiaries), is the basis of Orientalist thinking and leads to the claim that the West is unique with its relatively decentralised political structures: relatively “independent” feudal lords, autonomous cities, rational cultural orientations which lead to the “Enlightenment”, and also strong property rights, as the bulk of documents through which we know about European mediaeval society are related to conflicts about property. Here Europe is said to have experienced the early development of a significant role for markets and monetary relations instead of the dominance of the historical school’s natural economy based on estate production for subsistence.

The critics of Orientalism have shown that India or China were not despotic (Abrahamian 1974: 14 ff.; Asad 1973: 2279), that “sub-kings” were as unruly as feudal lords in Europe (Brara 1994: 227), that there were powerful social movements in the form of religious movements which claimed, as in Europe, spiritual equality of all humans (Omvedt 2003: 215; Nadkarni 2003: 4787). Urbanisation, a monetary economy and markets, including long distance trade, were as important in the East as in Europe (Heesterman 1989: 10).

These controversies, as well as the controversy over the comparative levels of technical progress (the so-called California debate<sup>12</sup>) have their origin in the absence of a solid politico-economic basis in the construction of explanatory models. Capitalism is based on the production of commodities by means of investment goods which can be owned privately and hence may be accumulated. Therefore, what matters is not the centralised or decentralised character of the

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<sup>12</sup> Pomeranz 2000; Vries 2008; Zurndorfer 2003.

superstructure, or the openness to societal change, but the orientation of final demand. What has to be explained is how profit, in the above definition, could become stronger in some parts of Europe in comparison with other ways of gaining access to the surplus, i.e. rent. The decisive variable is the capacity of a mass of relatively poor European consumers to participate in increasing productive capacities, not only by removing the hardship of famine, but by increasing the consumption of non-agricultural “industrial” goods.

The California debate gives a first empirical key. It highlights the high level of technical skill in the hand production of high quality items (Sahai 2005: 529 ff.). These authors have, however, not been able to produce evidence of mechanisation or mechanical devices in Asia, although mechanical devices such as watermills were known in the Himalayas. The debate pays tribute, perhaps unintentionally, to the old argument of the three tiered structure of Asian pre-industrial “industrial”, i.e. crafts production: in particular, the exceptionally high quality of luxury products for the upper strata, and the low levels of technical expertise in rural industries and resource-dependent industries like mining and salt production (Gadgil 1971: 45; Habib 1995: 221). It confirms the absence of large incentives for improving industries oriented to mass-consumption which would compete, not for excellence, but for lowering the cost of standardised production of average quality products. Despite his praise for Asia’s excellence, A. G. Frank (1998: 286), long before the California debate, had to admit Europe’s superiority in mass consumption production<sup>13</sup>.

Early studies highlighted the orientation of European crafts towards the middle and lower income markets<sup>14</sup> and the integration of European peasants into a market exchange system, as well as their consumption of the production from urban, often guild-free, industries. These studies also focus on the rise of rural industries against regulated and often guild-dominated industries in the established cities, especially in the debate on proto-industrialisation (Mager 1988: 302). Within the

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<sup>13</sup> Bayly (2000: 94) and Norel (2005: 439) observe that there were tendencies in China and India of increasing mass production, but do not compare this to the predominant orientation to luxuries. This aspect would have to be discussed in the light of the comparable observations of mass production of pottery and possibly also textiles without machinery in the antique structures of Mediterranean Europe.

<sup>14</sup> Rader 1971: 82; Biddick 1985: 831; Dyer 1989: 321; Becker & Gehrisch 1977: 1377.

feudal system, the expansion of mass demand became strong enough in some regions -also through exports on the basis of the implied comparative cost advantage in mass-oriented industries- to trigger off large scale investment in the improvement of standardised production, frequently through small scale industry in particular regions (Thirsk 1978: 65; Berg 1993).

The emergence of this “popular pole” of industry may have been facilitated by those specific features which the theory of the uniqueness of the West had focused on, but it cannot be used to maintain the inevitable character of the concentration of demand on standardised industrial products. Many had, however, contributed. They may have occurred in different mixtures in different regions, but their common feature is the empowerment of labour, as demonstrated during the middle ages in North Western Europe by the end of serfdom. Other aspects of the superstructure have certainly hindered the ability of the powerful to use violence against labour, such as the rivalry between the ecclesiastical (i.e. The Pope) and secular hierarchy (i.e. The Emperor), as well as between eminent feudal leaders who claimed to be independent from central instances as kings who represented nations. The intra-elite rivalries may have increased the possibility of labour expressing certain demands, as did demographic catastrophes such as the plague, all of which played the role of midwife to capitalism. In addition, ideologies functioned as religious beliefs, for example the notion of ritual equality among all humans as present in all monotheistic religions (but, indeed, also in many others). But all this probably did not go beyond the argument made by Engels, that the elites of Europe were more dependent on their labour than elsewhere and as a result they even adopted the local language understood by their peasants (Engels 1884: 395), which was a much less common development elsewhere. But vernacular languages had an important role in all religious reform movements, including in India (with Buddhism and even the Hindu Bhakti movements, Mair 1994: 712; Raychoudhary 1999: 278). Beyond cultural factors, other factors may have played a role such as the availability of new land in regions newly discovered (by Europeans and only for Europeans) and opened for colonisation by the peasantries of North Western Europe with their access to the central eastern European plains (German eastern colonisation). This may have been important not only in improving the lot of the migrants generally, but also that of the

remaining population (Kaak 2007: 73; Mottek 1964: 13 ff.). In comparison with the Asian empires, the relatively continuous rainfall experienced in Europe could be mentioned as a factor which influenced peasant independence from infrastructural works of irrigation. There may exist many other causes which remain to be excavated by research that will not invalidate the fundamental argument: the empowerment of labour is a precondition of capitalism. The model is therefore open to specified multi-causality.

Nonetheless, feudal lords were not systematic supporters of freedom. The stronger factions participated in king-led alliances in order to gain access to the redistribution of spoils made available via conquest and centralisation, so that European feudalism was full of attempts to centralise and to build up a universal monarchy which China had achieved after the warring kingdoms (Mo 1995: 101 f.). Universal monarchy was the great ideal of many intellectuals during the European Middle Age (Osiander 2007: 322). More so, the Asian structures had been the yardstick continuously promoted by “rationalising” reformers in the existing European feudal structures, with the most prominent examples being the Emperor Frederic II<sup>15</sup> in his Sicilian domains, the Spanish monarchs of the 16th century (which Marx had called an Asiatic despotism, Marx 1854: 440 f.) and French absolutism<sup>16</sup>. The centralisation of the feudal kingdoms through hierarchical bureaucracies was ultimately achieved, if only temporarily.

One of the characteristics of highly inegalitarian tributary structures has been masterfully analysed in the Islamic world by Ibn Khaldûn (1967: 570-9) and in the dynastic cycle literature of China (Reischauer & Fairbank 1960: 117; Moore 1966: 457). Centralisation of the ruling class -taking its purest form in the establishment of bureaucracies- led to harsher exploitation, increasing resistance, and the de-legitimation of the authorities. In decline, however, the lack of public order and the fact that craft production was not oriented towards a mass sector did not necessarily lead to growth, even where

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<sup>15</sup> Comninel 2000: 22; Lieberman 1997: 500; Abulafia 1988: esp. 44 f.

<sup>16</sup> The approach therefore is not to engage in intellectual gymnastics in order to determine the capitalist or non-capitalist character of absolutism, as the tendency of the lords to centralize rents, and the tendency of capitalists to gain access to rents in order to be safe from excessive competition, simply converge. See as examples of this debate: Anderson 1974: 34–40, Wallerstein 1974. 350f.

the exploitation of the peasantry may have decreased. The reduction of the tributary state's regulatory capacity does not necessarily lead to thriving mass consumption goods industries.

I conclude, therefore, that the emergence of capitalism is the result of accidents in the wake of which labour became empowered to an extent, in space and time, through which a popular pole of industry could emerge. The rise of new elites, hence the bourgeoisie, was not the result of an original fragmentation of the European elites supported by socio-culturally determined ideas about the limits of centralised power, but of the emergence of possibilities to thrive on the basis of profit without being patronised by the central power. There is no mechanism through which the ruling strata, be they fragmented or centralised, can develop on the basis of their own economic interests an interest in rising mass demand and hence create the dynamically expanding market for standardised products as the basis on which to build profit.

#### **4- CAPITALISM EMERGED BECAUSE OF RESISTANCE FROM BELOW AND POLITICAL AND SOCIAL CONDITIONS FAVOURABLE FOR SUBALTERN LABOUR IN VARIOUS FORMS**

There were a variety of factors in some parts of Europe which contributed to the empowerment of labour against rent, and this did not *per se* lead to an outcome of "transition" to capitalism. Marxian, as well as modernisation as well as classical economic theory, maintains that capitalism requires extraordinary and continuously increasing surpluses for investment. Marx's theory of primary accumulation is based on the idea of rendering labour weak by expropriating it. Labour has to be separated from its means of production in order to make it docile and pliable to new methods of production and cheaper wages. Monetary Keynesianism contributes to this idea as it focuses on monetary policies in order to trigger off investment but neglects an analysis of power relations which are favourable to labour. My own interpretation of the Industrial Revolution is opposed to these positions. There are four empirical issues, which can be used to check the plausibility of the contending interpretations: (1) the development of real wages before and during the Industrial Revolution, (2) the timing, the extent of, and the regional focus of the enclosure movement in Britain, (3) the product

mix of industry which emerged in the Industrial Revolution, and (4) the role of impoverishment following an interpretation of the macroeconomic effects of the English Poor Laws.

Concerning the first point the discussion surrounding real wages around the period of the Industrial Revolution actually seems to be characterised by agreement on the relatively high, and rising wages of English labour in sterling silver terms. Broadberry and Gupta (2006) report relatively high and rising real wages in terms of non-food products, despite less pronounced increases in grain wages. Also, however, the level of food production and consumption developed favourably over time despite the temporary decline during the 18th century from previously higher levels<sup>17</sup>. This coincides with the absence of famines in North Western Europe from the late 17th century (Clark 1976: 379; Habakkuk 1952). The argument of the biometric school about a decline of body height from higher levels in the late 18<sup>th</sup> century is relativised by its own studies. This decline took place in (urban) settings with relatively high wages, so that it is due less to the availability of basic wage goods such as food, than to the preference for non-essentials, so-called amenities, by newly mobile people (Komlos 2003; Cinnirella 2008: 341). The centres of the Industrial Revolution attracted immigrants and maintained small and medium farms in agriculture (Redford 1964: 62; Lyle 2007: 100). Vries's observation of comparatively high wages in North Western Europe in relation to the rest of the world, even after the crisis of the 17th century, confirms this view (Vries 2009: 189).

Comparisons between China and North Western Europe that established similar levels of day wages were shown to neglect the much higher number of working days for north-west European rural labour (Huang 2002: 534). Statistical information about declining consumption from the decades between the 18th and 19th centuries do not contradict the basic argument: low private mass consumption was due to the war effort (French wars) and does not indicate low mass demand but rather decline in consumption goods production.

Against the extended literature which claims that standards of living in Europe declined between the late 15th and early 18th

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<sup>17</sup> Clark, Huberman & Lindert 1995: 235; Crafts 1980: 159; Duncan 2000: 196; MacKeown, Brown & Record 1972: 352–60. Also acknowledged by critics: Komlos 1990: 85.



centuries, I would argue that in the wake of demographic growth since the 15<sup>th</sup> century the declining availability of food per capita lead to quantitatively less food consumption, or to consumption of more expensive food, so that the observation of high non-food item consumption by Broadberry and Gupta (2006) further confirms my argument.

Second, Marx<sup>18</sup> following Thomas Moore (the 16th century author), focussed on the proletarianisation of English labour through the enclosure of the common fields, which in the 18<sup>th</sup> century deprived *labour* of its means of subsistence, particularly the lower strata of rural labour (Marx 1867: 746). Land concentration diminished until the Glorious Revolution<sup>19</sup>, so that this shedding of labour occurred in a period of growing industrial employment when money wages also increased. Enclosure favoured large landlords mostly outside the regions of the Industrial Revolution, while in the central regions of the Industrial Revolution enclosure was often achieved by compromise<sup>20</sup>. Land concentration in the 18th century resulted in the gentry selling large segments of land it had acquired during the preceding period of concentration in land ownership (Wallerstein 1974: 125, 240). These sales were realised on the basis of high prices which allowed the gentry, a new privileged class with special habits, to finance its shift from agriculture to developing decentralised industries and trade (Clark 1998; Holderness 1971: 174).

Third, agricultural innovation or the so-called agricultural revolution, was not the result of highly mechanised production or the shift in land usage from food production to export production (e.g. the wool industry-“the sheep eating the men”) but was to a large extent the result of the ingenuity and economic freedom of the English yeomanry<sup>21</sup>. Overall, agricultural employment increased until the corn laws of the middle 19th-century. The shedding of rural labour was less than the demographic increase during the 18th and early 19th

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<sup>18</sup> As well as many others writers after Marx.

<sup>19</sup> Cooper 1967: 435; Habakkuk 1939: 2–5; Hilton 1967: 336; Hoskins 1950: 154, 178.

<sup>20</sup> Chambers 1946; Allen 2003: 430; Allen 1988: 120 ff.; Marxists admit the argument: Kulischer 1965: 64.

<sup>21</sup> Allen 1992: esp. 310; Tribe 1981: 85. This opposes the Brenner theory: Brenner 1976; Brenner 2001.

centuries<sup>22</sup>, and agricultural modernisation provided food for the masses as well as additional employment, not only in agriculture, but in growing small scale industrial undertakings which proliferated particularly in the core regions of the Industrial Revolution (Thirsk 1978: 159; Berg 1993).

This orientation of agricultural growth to mass needs was the basis of English agricultural superiority until the middle of the 19th century: England had the highest growth of agricultural production and agricultural productivity (1500-1739 production doubled, Allen 1989: 224) and already in 1800 one farmer was producing output for more than 14 non-agricultural people (Bairoch 1966:28). The relation between seed planted and crop yields doubled after the late Middle Ages, and agricultural output per land area also doubled<sup>23</sup>. Clark (2007: 98) even observed an increase in marginal productivity of farm labour. At the same time, extensive and decentralised land improvement measures were realised and the use of artificial (partly chemical) fertilisation began<sup>24</sup>. A similar process occurred in industry with the mechanised production of the largest single item of non-food expenditure in poor households: textiles (John 1965: 22). In addition, many improvements were realised in other areas of industrial mass production. Even the hitherto luxury items of Asian origin were adapted to cheaper production methods so that their consumption was made more accessible and thus enlarged (Berg 2002: 3). There is a debate, reflected in these observations, on whether the enlargement of consumption was due mainly to the rise of a continuously growing urban middle class or whether the “wretched masses” really shared in the progress of technology (Eversley 1967: 210). English literature is full of critical accounts of increasing poverty in the country, therefore a politico-economic analysis of the central aspects of official poverty management should provide some insights here.

The English poor laws, which came into effect during the transitional period to capitalism -the so-called early bourgeois period of the late 16<sup>th</sup> and early 17<sup>th</sup> centuries<sup>25</sup>- are not the proof of reckless

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<sup>22</sup> Beckett 1977: 580; Collins 1967: 361–5; Blum 1983; Brasseul 2004: 940 f.; Bairoch 1985: 301.

<sup>23</sup> Slicher van Bath 1963: 328 f.; Braudel 1966: 9; Skalweit 1915: 28, 35, 45; Kopsidis 2006.

<sup>24</sup> Brunt 2004: 193; Kerridge 1967: 243; Wrigley 2006: 438

<sup>25</sup> Block & Somers 2003; Oxley 1974; Broad 2000; Coats 1976; Solar 1995.

exploitation that Marx would have us believe (Marx 1867: 703), but rather a powerful instrument for the protection of the poor against their marginalisation (Elsenhans 1980; 1992). Let us return to our above figure on the marginality-cum-rent model: We can consider the English poor as people who were unable to produce a surplus beyond their basic needs for subsistence. With the introduction of market relations and the workers' separation from the means of production (i.e. land) they were displaced and effectively became vagrants. The parishes could force them to work for salaries below the cost of their subsistence and then complement the difference by putting them into poor houses where they received basic food and shelter, albeit of the most rudimentary kind. In comparison with many of today's marginalised masses in poor countries of the South, *Oliver Twist* was better off. In opposition to Marx's explanation, the privileged, rentiers or incipient capitalists, had to pay for the total subsistence of the poor, partly in the form of a wage in line with work provided, and partly as a tax on their assets (in the English case, on land). Only on the basis of this tax could the parishes pay for the upkeep of the poor in the poor houses. Poor relief consisted in the channelling of parts of the surplus into the upkeep of impoverished masses which articulated a demand for food and machine-produced consumption goods so that responsive capitalists could increase investment spending. At the same time, total surplus obviously decreased (Malthus 1958: 57 f.). Mass consumption rose and even profit even increased tendentially. Only the rents accruing to the privileged decreased. During the whole of the 17th and 18th centuries the English gentleman represented merely a second rate member of the upper strata of European society in relation to the continental aristocrats (Thomas 1963: 59; Borkenau 1934: 172).

Out of these four empirical insights we can draw the conclusion that the decisive element which allows the empowerment of labour is the removal of marginality. The removal of marginality by increasing the marginal product of labour and/or by social measures which protect the poor is the basis of the emergence of a proletariat, the doubly free worker who is liberated from all pre-capitalist ties but also from any property, i.e. the means of production (Marx 1867: 742), and who, according to Marx, had only to cast off his fetters (Marx & Engels 1845/46: 69 f.). In contrast to wage workers in pre-capitalist economies (where the wage relation already existed), such proletarians in incipient capitalist modes of production did not exchange their

freedom for new kinds of patronage because they had no need of protection from above and could stand as individuals on the labour market without the protection of a patron for one simple reason: they produced a surplus, therefore they could be exploited, and hence, they had a fair chance of being employed. Exploitation is a more complicated relation than has been described by those who merely criticise it from a moral standpoint.

The varieties of ways in which this empowerment was achieved also explains that there is no uniform pattern of transition to capitalism, but that there are various possibilities of empowering labour. In the western regions of Germany there was a mixture between agrarian structures of the English type and massive infrastructural spending on railways (Fremdling 1977; Kocka 1990: 68). Pre-capitalist ruling classes in Japan pursued the goal of increasing military power and fiscal revenue. They appeared as a pre-capitalist elite which was committed to modernisation because they hoped to increase resources available for investment by shifting from taxes payable in kind to a future where land taxes could be payable in monetary form. It was only unwise state-led investment spending which led to inflationary pressures that became the real burden on the peasantry. Rural markets expanded because the peasants could increase their marketable surplus (Hayami 1972: 29; Grabowski 1994: 443). The adoption of the Western values of the bourgeois revolution was, however, not among the priorities of most “reformers” as was the case in many other countries that wanted to improve their military potential against an intruding West.

Whatever the size of the Westward migration in the United States and comparable possibilities of colonisation, in other regions of new settlement (I make reference here to the famous controversies on the Turner thesis) labour could not become marginal when there was the possibility of withdrawing to a homestead with a reasonable level of production, even if only a few members of society took this option (Webb 1952: 27 ff.; Coelho 1976: 221; Karabel 1979: 2212 ff.). Outward migration also empowered non-migratory populations. Such outward migration in the form of the transatlantic migration of the 19th century played an important role in reducing marginality, especially in the Scandinavian countries (O’Rourke & Williamson 1995: 174; Riegler 1978: 45).

Increasing exports also played a supporting role, for example, in Japan

as well as in some European economies-which were close to the centres of self-sustained industrialisation (Ranis 1957: 602; Mokyr 1974: 381).

It is possible to identify in a uniform manner the successful management of marginality, or absence thereof, in the economies which achieved the transition to capitalism. The decisive factor, empowerment of labour, was in the final instance the condition through which the neoclassical theory of wage drift functioned. What all this evidence shows is that rising mass incomes are a consequence of capitalist growth and not a root cause of it.

##### **5- CAPITALISM IS EXPANSIVE BUT NOT CONTAGIOUS**

Capitalism depends on the empowerment of labour, but it does not lead by necessity to such empowerment if transferred from outside by the mechanisms of integration into the international division of labour. Authors such as Marx and those from the classical and neoclassical schools assume that the search for cheap labour leads to the propagation of capitalism as the latter is based on the possibility of appropriating as much surplus labour as possible. The Keynesian view followed in this paper assumes that integration into the capitalist world system under the impulse of the search for profit by capitalists may not lead to the emergence of social structures which allow capitalist accumulation in the newly penetrated regions. Therefore the penetration of non-capitalist structures by capitalist ones may result in under-development instead of development. Transnational trade relations and even international specialisation existed long before the emergence of capitalism, and capitalism may take over such relations, and even decisively influence all of the participants. However, this still does not imply that the capitalist world system under the dominance of capitalist centres transforms the whole world into a capitalist structure.

Trade, even pre-capitalist trade, ultimately depends on comparative cost advantages which are transformed into cost competitiveness by the adjustment of basic reference goods under capitalist conditions, the general price levels (specie currencies), or the exchange rate. Pre-capitalist long-distance trade was regulated by the desire to exchange valuable luxury products from the economy of origin against the maximum possible amount of luxury products in the destination

economy and which could be sold at high prices at home<sup>26</sup>. Prices depended on the uniqueness of the product so that the quantities traded of any single item were limited. The richer a society, the more diverse luxury items it can offer so that the overall profit in trade increased. Long-distance trade, therefore, primarily connected Wittfogel's rich hydraulic empires (Wittfogel 1932: 594-597). Trading routes also had to be protected against free riders. All of this favoured the more powerful states and Empires.

The aim of European trade expansion in the 16th century was to enter the existing networks of global trade under the best possible conditions. It consisted in circumventing major powers who had control of the existing trading routes and led, therefore, to new discoveries. This process was largely characterised by power and plunder, similar to the process of "previous accumulation" which had occurred in Europe and elsewhere earlier (the latter often referred to as exploitation). The poverty of Europe in luxury goods created great incentive to exert power, to search for precious metals, and to proceed to import substitution in areas under European control wherever possible-e.g. the plantation economy of the Caribbean and some other parts of America, but also import-substituting industrialisation in textiles and luxury items (Berg 2002: 3).

If the argument holds that any particular capitalist technology reduces the costs of production so that it becomes self-financing, then such exploitation was not necessary for accumulation. If the argument holds that technical progress is achieved under capitalism through economies of scale (mass production) then the plunder described here constituted more of a threat to accumulation than support of it, as it allowed for greater inequality, the enrichment of old elites, and the political disempowerment of labour<sup>27</sup>. The pattern of plunder and monopoly control of trading routes for rare products like spices did not constitute any departure from pre-capitalist structures because it

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<sup>26</sup> This does not exclude the fact that outside Europe there was also an increase in mass consumption-oriented trade (Lewis 1973. 256). The importance of Asian cloth for English trade and the East India Companies is further proof. As I do not consider trade and exports as an important cause of the transition to capitalism, the issue need not be pursued here.

<sup>27</sup> Wallerstein 1974: 22-24, underlines the importance of peasant resistance and rising incomes in the 15th and 16th centuries, but on page 118, characterises a role of the periphery for accumulation.

discouraged capitalist technical development whereas external financial resources were not required for investment<sup>28</sup>. European trade expansion led to increased interaction and also to patterns of specialisation which led to trade in items other than just luxuries. These relations, whether elaborate or loosely connected, may be called a world system when the emerging pattern of specialisations led to path dependent patterns of differential development opportunities as described in the image of interconnected development and under-development<sup>29</sup>.

The emerging pattern of global pre-industrial specialisation was hence characterised by: a comparative advantage in luxury items in the Asian civilisations, together with naturally occurring goods such as spices; and marginalisation of the communitarian modes of production which were used to acquire labour at prices below Europe's cost of reproduction (slave trade). The European economies without access to wealth, but capable of defending themselves against dispossession or enslavement, had to produce simple low quality products which were characteristic of European exports until the 20th century.

As productivity increases in the wake of technical innovation were higher in branches where stocks of raw materials were less important, the result was that economies which were technically backward soon emerged with a comparative advantage in raw material production. In addition they suffered less than the dynamically industrialising economies from deterioration of natural conditions, the exhaustion of mining deposits, etc., conditions on which raw material production depended. They became price competitive where the limited bulk allowed profitable transportation, for example this began with non-ferrous metals rather than iron.

Technical growth through mass consumption implies process innovation which leads to product innovation. New production processes which developed on the basis of the production of mass consumption products made possible the production of new goods to meet needs which until then could not be satisfied, or goods, the existence of which had remained hitherto in the realm of fantasy, such as the flying carpet of the fairy tales. These new products were

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<sup>28</sup> Thirsk 1978: 169; Chapman 1970: 252; Donnachie 1977: 2283; Bairoch 1969: 55.

<sup>29</sup> Frank & Gills 1993: 38; Wallerstein 1988: 582.

initially expensive and inaccessible but were to become democratised. This increase in the availability of new luxury items on the basis of mass consumption-oriented technical innovation caused the loss of markets for the Asian producers of old luxuries, not only in Europe, but also in their own countries.

The capitalist world system was characterised, on the one side, by the co-existence of capitalist economies based on rising mass consumption, permanent technical innovation, and the development of new products; and, on the other side, by economies without such mass consumption. Here the privileged tried to increase their purchasing power by reducing the cost of production usually by shedding marginal labour, which had until then been protected under pre-capitalist relations of solidarity which, admittedly, took very different forms. This had important consequences for economies that had not yet developed. Their external position as exporters was characterised by specialisation in price-inelastic products, which implied tendentially declining terms of trade (even if terms of trade rose in some periods when products from these “peripheries” initially entered European mass consumption-especially in the late 19th century such as coffee), an interest in keeping prices high through the administrative control of available quantities (i.e. raw material cartels), and the explanation of technical backwardness as a result of exploitation through forgone earnings in traditional raw material exports. This allowed the denunciation of Western imperialist domination. However, at the same time the powerful classes in the non-western periphery attempted to ally with the imperialists and become their bridgeheads. High earnings from exports created the illusion that maintaining social stability could be achieved without special effort in support of the down-trodden. These bridgeheads easily accepted the marginality which followed from the dissolution of pre-capitalist embeddedness of the poor in the villages, but also in the cities, to which the marginals were attracted in order to enjoy some minimal benefit from the trickle down of rents in the hands of the urban “elites”. Limited modernisation such as extended healthcare systems as well as some of the benefits of colonial domination (such as the end of internecine warfare) contributed to demographic growth and intensified marginality. As such, a disempowered population could not impose mass production for its own needs which would have created employment for the marginalised and hence ultimately helped the transition to capitalist



growth.

Under-development appeared simultaneously in the form of the scarcity of investment capital -especially lack of foreign exchange-, and social crisis characterised by surplus population. The employment problem could be tackled either through exports of new products or better raw material prices. More exports of new products required devaluation until comparative advantage in price-elastic manufactured products was transformed into cost competitiveness. Without an accompanying corrective intervention in the raw material sector this meant the disappearance of good earnings from traditional exports, especially raw materials. Good raw material prices were, however, looked upon by the great majority of the population as the wealth of the country. An alternative solution was the increase of wealth via politically imposed higher prices. The appropriation of this wealth constituted the collection of a rent.

The channelling of that rent into previously unprofitable investments -as the basic aspect of economic diversification under conditions of under-development- required a structure which did not follow the rule of profit maximisation, and this could only be a non-capitalist political structure. The appropriation and channelling of rents to overcome under-development implied an increase in the economic importance of the state, the representativeness of this state vis-a-vis the target population (this had implications for later decolonisation), and the constitution of a political class in control of the state. Such a class was independent from domination by other classes for the simple reason that it had direct access to rent and could use rent on the basis of its own discretionary power, free of control by other classes (including the "metropolitan bourgeoisie"). It was this independence which separated this class from the idea of Weberian bureaucracy. I call it a state class (Elsenhans 1981: 59 ff.; Elsenhans 1996: 109 ff.).

These state classes constituted both a danger and promise. The danger consisted in the waste of rents, especially if they fuelled the accumulation of increasingly heavy-handed rentier state structures which further blocked social development. The promise consisted in their capacity to build up diversified economic structures through which previously unprofitable investments could be realised and become profitable. Such profitability could come from the development of the web of inter-industrial relations, but also through employment creation and welfare measures which lead to growth in

internal mass demand. Both of these facilitated greater industrial production through learning by doing and skill formation, and ultimately improving comparative advantage and international competitiveness as described by all those analyses which insist on import-substitution as a precondition or a support for the shift to export-orientation.

The notion of a state or administrative bourgeoisie removes all the distinctions between societies with politically based exploitation and capitalism. It hollows out the very concept of capitalism in order to construct a moral indignation. The argument that these state classes can achieve only the transition to capitalism and not to socialism (Mattick 1969: 341) can be qualified in the sense that even this depends on their capacity to achieve high levels of employment or the empowerment of labour in ways other than employment. In this, some state classes have been more successful than others, independent of whether they have been oriented historically toward rightist ideologies (South Korea, Taiwan, Thailand) or leftist ideologies (People's Republic of China, Vietnam). There were cases where a socialist discourse was remarkably unsuccessful (Algeria, Egypt).

The fact that these goals were achieved on the basis of improving financial resources appropriated as rents indicates that higher income for non-capitalist agents did not and does not harm the growth of the capitalist centre.

This invalidates the enduring argument by the North in its negotiations with the South, at least since the foundation of UNCTAD until the latter's failure in the mid-80s. Here it was argued along neoclassical lines that a reduction of resources for the North would limit growth there and consequently the capacity of the North to carry the South. Instead, the higher purchasing power of the South provided markets for the North particularly where rents went to state classes in highly populated countries.

The failure of the so-called Third World development state indicates that the hope of establishing capitalism is not fulfilled by the availability of enormous financial resources. Capitalism created rent-based structures which for long periods were not dissolved either by capitalist forces from outside or by internal contradictions in these societies. They were dissolved by the overconsumption of the ruling state classes, just as described in the parallel structures of ancient Arab empires in the work of Ibn Khaldūn (1967: 571).

## **6- THE GLOBALISATION OF RENT: THE ACTUAL GLOBALISATION PROCESS UNDERMINES THE SOCIAL AND ECONOMIC CONDITIONS FOR CAPITALISM AND CREATES THE THREAT OF A RETURN TO RENT-BASED STRUCTURES**

Manufactured exports as the centrepiece of globalisation may lead to generalised rent seeking at the global level, even if we do not take into account the increasing market imperfections created through technical monopolies and company networking aimed at the reduction of transaction costs (such as hierarchical chains of production, Elsenhans 2006). Globalisation is not based on a generalisation of perfect competition but on intelligent mechanisms of using rents for improving international competitiveness. It may lead to the empowerment of labour, but given its limited character, this is not probable, and less so because of the strategies that leading and developing economies pursue as their second options.

Export-oriented industrialisation is often accompanied by low real wages, but is primarily successful via relatively low international labour costs<sup>30</sup>. Low real wages measure the basket of goods available for wage earners, while low international labour costs measure the cost of labour internationally via a freely convertible currency. A simple search shows that per capita incomes at purchasing parity -and hence also real wages- in most Asian and Latin American countries are about four or five times higher than per capita incomes -and hence also monetary wages- in international currency at the going exchange rate. The low labour cost areas are not the poverty and hunger ridden regions of sub-Saharan Africa, but East and South East Asia where famines have been overcome since 1945.

Exchange rates lower than purchasing parity are based on the mobilisation of rent from the agricultural sector. At low levels of income, the subsistence needs of the additional workers employed in the enlarged export sector consists predominantly of food (about 50%) as well as equal shares (of about 10%) of textiles, shelter, traditional household equipment, and modern appliances like TV, refrigerators, etc. With the exception of the appliances, these products are all within reach of the local informal sector and small scale industry, at least in

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<sup>30</sup> Elsenhans 2002: 63; Elsenhans 2004a: 2; Elsenhans 2000a: 24; Elsenhans 2005: 21 ff.

Asia, North Africa, and Latin America. Most of the appliances are produced in countries of the South, at least in standard quality versions. In order to feed these additional workers oriented towards exports as well as workers in the industries which supply them, therefore depends on the availability of additional food, i.e. on agricultural surplus. Therefore, the successful export-oriented countries have all benefited from the Green Revolution, especially in rice production (East and South East Asia) and they have been self-sufficient, at least initially, in food production. This is a major difference compared with the bulk of sub-Saharan Africa and the Arab world.

After devaluation the newly available surplus could be bought by newly employed workers with the incomes paid to them in national currency. These incomes gave them an entitlement to wage goods, in this case, basically food. Through this mechanism, the ground rent of the landowners was channelled into mass consumption without any further administrative mechanism, such as a land tax. Without this devaluation land owners would have been able either to exchange the produce of the land on the world market, possibly at a better exchange rate, or, in case of an absence of this external demand, use the additional food to employ additional workers on their estates in non-agricultural occupations in order to transform the ground rent into non-agricultural products for their own consumption. Where both possibilities were excluded, the ground rent would probably not have been produced at all, or not been appropriated by the landowners, but rather transferred to (foreign) consumers in the form of cheap food on the world market. The rent character of the additional agricultural output is evident in the case of the successful Green Revolution, however, it also becomes visible in other situations such as in Vietnam, where many regulations were imposed on agricultural producers in order to block the export of food. Traditional agricultural exports are, in most cases, extremely “profitable” at devalued rates of exchange.

Export-oriented industrialisation in developing economies in the South is less an expression of a generalised capitalism but of the emergence of rent which can be used for subsidising industrial diversification-in this case not by means of protecting the home market as in the previous model of import-substituting industrialisation, but by means of using the world market.

Devaluation-driven exports are therefore limited by the availability of an agricultural surplus. The removal of the capacity for agricultural surplus would imply the danger of a return to famines which are desirable for no class whatsoever. The other limit for devaluation-driven exports is full employment. Germany after 1949, and later on Japan, South Korea and Taiwan, have demonstrated that devaluation-driven exports lead to an overheating of the economy when high levels of employment are achieved. Devaluation-driven exports will lead to imported inflation when labour markets become tight. Korean economists define as a turning point the level of employment where wages increase not only in the export sector but in other sectors as well (Bai 1982). Counteracting the international race to the bottom with respect to costs and wages will be successful only if all participating economies, like the capitalist industrialised economies of the late 19th century, operate at high levels of employment. The current strategy of “tightening the belt” proposed by mainstream policy makers in the high wage economies will not be successful, as any effort at cost reduction will be counteracted by further devaluations.

Most of the arguments proposed today to explain that labour can no longer act nationally have already been expounded in other historical contexts. Bismarck, for example, argued that labour protection in Germany would be possible only if Germany could erect a Chinese wall against the world market (Huberman & Meissner 2010: esp. 665 f.). At that time, the combined pressure of labour in the industrially competitive economies caused European governments to link trade liberalisation (via bilateral trade agreements) to the implementation of labour standards. This step was achieved during a period when transnational mass communication among industrialised countries was far less developed than is the case today between old industrial and emerging industrial countries. It is therefore not the absence of communication but the absence of an explanation of the structure of the capitalist world system which keeps the organisations of labour, marginalised groups in the South, and organised labour in the North, from developing the basis for parallel and convergent strategies. In the absence of such an understanding both types of economies will intensify rent based strategies.

In industrialised capitalist countries the useless strategy of general cuts in labour costs in order to defend oneself against devaluation-

based competition does not prevent large segments of public opinion from successfully accepting and even supporting wage increases clearly below productivity increases. Social democratic reformers pretend to follow more intelligent strategies by “educating” labour and improving “training” in order to acquire a technical advantage, ultimately attempting to secure technical monopolies. This also raises the rate of physical productivity growth above the level of real wage increases. In both cases, productivity outruns production. When productivity increases more rapidly than production the result is the classical definition of an under-consumptionist tendency in Keynesian terms (Woytinsky 1935: 165; Bell 1940: 169), whereas neoliberals would explain productivity outrunning production as an opportunity for accelerating accumulation. The observation of crisis and unemployment on the basis of productivity outrunning production is therefore a clear indication of the lack of any empirical reality in the neoliberal interpretation of crisis. Limiting wage increases and increasing the productivity of labour beyond wage increases as a reaction to globalisation only leads to under-consumptionist tendencies.

Developing economies follow similar strategies. Devaluation is costly, although the costs can be limited if new branches of production become rapidly competitive. If existing structures of production with export potential can be shown to trigger demand for future branches which can already be quickly established with little additional cost for training or subsidies, then the promotion of such branches by subsidies can be justified with a view to future demand from the growing export branches they are linked to. This allows upgrading of the export mix and import substitution for inputs and even equipment for export branches. For example, when Korea faced declining price elasticity of demand for its textile exports, it blocked the import of textile machinery (Haggard 1983: 283; Mytelka 1986: 258). Textile exporters had to turn to the suppliers of their spare parts, instruct them on the characteristics of the machines they needed, and order from them newly designed or imitated textile machinery. Imposing local content rules on foreign firms which produce for export is a general procedure in developing economies. These rules can be imposed if in the developing economy some production lines are so efficient that

their profit rates are far above average rates<sup>31</sup>. Burdening them with additional costs as did the Koreans by forcing their textile exporters to buy initially more costly locally produced textile machinery meant the appropriation of an “extra profit” in order to use it for subsidising local textile machinery production. The overall mechanism is no different from an oil producing country’s tax imposed on oil exports, using the proceeds for state-subsidised industrialisation programs. It is no accident that East Asian economists discuss the role of rent as a subsidy for promoting export orientation<sup>32</sup>.

Rent-based strategies of promoting international competitiveness by changing comparative advantage are very interesting if the usual assumptions inherent in theories about the product cycle, or *dependencia* approaches to the stability of the hierarchy in the international division of labour, have proven not to be universally applicable (Elsenhans 2004b: 268; Elsenhans 2011). Existing developed countries will have a comparative advantage in established high technology industries due to knowledge gained from experience in specific branches, at least to a certain extent. In emerging high-technology industries all competing industrial countries, both old and emerging, have no experience or accumulated knowledge in the field. Emerging countries can overtake the old industrial countries in new emerging industries despite lagging behind them in these most modern technological areas; as long as this lag is less than the degree to which they lag in those industries in which the established industrial countries have a leadership position. An example is Korea: Germany forgoes its production in microelectronics because it has a huge advantage in the production of luxury cars such as Mercedes. The success in this latter industry leads to an exchange rate for Germany which is so high that its microelectronics production become too expensive in relation to, for example, Korea. Such industrial policies ultimately depend on the political appropriation of resources to be allocated to as yet (or possibly, never) profitable activities, where others have to take the risk instead of capitalist entrepreneurs. All states strive to be the first by subsidising high-technology (Krugman 1987: 134 f.). As a result of the implied political struggles also in the internal relations between economy and politics the weight of politics

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<sup>31</sup> A good example is the auctioning of export licences, Morkre 1979.

<sup>32</sup> Cf. the contributions in Khan 2000.

increases, even if this is advantageous to capitalist interests (which are always particularistic).

The structure of the WTO and even its conflicts reflects this tendency towards the politicisation of the world economy: decisions are not mandatory but allow claimants retaliatory measures which depend on their political and economic power. The weighting of votes is not required when decisions are not mandatory. In particular, developing countries do not allow an intensification of liberalisation - called deep integration- which would deprive governments of major political tools to promote technology (Young & Peterson 2006: 795).

It is clear that an alternative strategy would require the politically conscious cooperation of all social groups concerned, especially labour. I do not intend to discuss the problems which such worldwide alliance building would face, but I insist on the fact that this requirement documents a major aspect of mature capitalism in comparison to emerging capitalism. My model was designed in a way that all the participants in the class struggle were empowering each other by simply following their own individual (selfish) interests. Initially, ideology may have mattered for mobilising one's own support group. However, ideology was not, until now, necessary for understanding the whole system or even the relevance of one's own actions for the stability of the system. Capital could follow the idea about rising wages being an impediment to growth because they rose anyway as long as labour was struggling to secure resources for survival. As such, ideological hegemony was of secondary importance. All this may change, however, if capitalism cannot be brought operate at levels of consumption appropriate to its productive capacity through the simple spontaneous resistance of the needy, but nonetheless empowered, masses.

## **7- IN CONCLUSION: SOCIALISM OR BARBARISM**

Globalisation is not the only mechanism which threatens the class balance which I consider to be characteristic and constitutive of capitalism. There are others, such as the emergence of non-material needs accompanied by strategies for limiting consumption through savings, the need for collective consumption, the diversification of the working class, and, as a result of these developments, the overarching importance of the ideological realm.



My model is based on the following assumptions: households without access to means of production willingly accept their exclusion from direct participation in the management of surplus and are satisfied with being able to meet their immediate needs of consumption. They accept the objective socialisation of investment through the orientation of final demand. They do not object to the privilege assumed by the entrepreneurial class to interpret the future development of demand. They “understand” that capitalism operates on the illusion of the private character of property, whereas in reality most property is simply a mechanism which gives a ticket to the appropriation of surplus value. It was argued that such appropriation of surplus labour through “self-valorising capital” depends on high levels of employment and rising mass demand.

This pattern of behaviour can develop only if households have an ultimate guarantee in imposing their condition of empowerment: employment. Capitalism was, and is, successful as long as all participants are confident in their own future empowerment. There is no need for a cultural, political or social mechanism to create trust beyond either side’s sticking to the formal rules of the game, as long as the restrictions of any alternative options, either for households or entrepreneurs, do not allow them to seek anything other than maximum consumption and maximum profits. In that sense, capitalism does not need culture or trust. It can free culture from the need of maintaining trust in the system as did the temples and the palaces of older times<sup>33</sup>.

The argument that savings do not constitute a threat to profits has often been rejected by insisting on the cyclical nature of saving and dis-saving during the life cycles of households. In major industrialised countries, especially Japan and Western Europe, there has been a massive rise in rates of saving since the 1960s and 1970s. It has fallen only recently, following the downturn of these economies in the 1990s, although it still remains high in comparison to the periods before 1960 (Harvey 2004, Masubuchi 2006). With respect to the possibility of private entrepreneurs raising the rate of accumulation, hence increasing their indebtedness, the German data would indicate that the creation cost of new productive capacity is not rising. As a

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<sup>33</sup> As Marx described, these monuments represented the overarching unity of the system, Marx 1857-1858: 377.

consequence of low capital requirements, investment in plant and equipment is increasingly financed from amortisation.<sup>34</sup> Accelerating accumulation by raising external finance of investment appears to entrepreneurs as risky and is avoided wherever possible.

The increase in household savings removes the link between labour costs charged to entrepreneurs and demand accruing to enterprises constituting an objective demand for redistribution of the right to control assets. They occur because labour no longer has just its material need of immediate consumption, but additional needs which are formulated in a longer-term perspective. Increasing savings demonstrate the achievement of capitalism to satisfy increasingly material needs, so that non-materialistic needs can be regarded as realistic options. Not all of these needs constitute a restriction on consumption, however. In relation to existing needs, they are often directed to collective goods. Their production requires the collective organisation of the potential beneficiaries and this type of collective organisation exceeds the organisational and cultural requirements of the wage earners organised for collective bargaining. Specific collective goods are not easily quantifiable with respect to the benefit of all those who are interested in them (including their precise qualities), but demand widespread agreement on the precise definition of the demands. One of these collective goods is the environment. It is already multifaceted at the national level but more so at the international level, where carbon dioxide sinks and forests are traded against requirements to lower pollution standards in taking account of differential obligations because of differences in economic development and the necessity to compensate for previous exploitation, etc. The actual discussions at the global level show to what extent this leads to international rent seeking.

The importance of disembodied technical progress for capitalist growth has been mentioned as a condition for the maintenance of a constant capital output ratio. The other element of technical progress, human capital -i.e. basically human skill-is unevenly distributed among the working population. Specialisation implies that humans always have skills in some, but not all, areas of activity. In the past,

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<sup>34</sup> Net investment was only 21,7 % of gross investment from 2001 to 2008, the last years for which data were available. Data from Statistisches Bundesamt 2011: 14, 40.

for example, machine producers had all the skills for producing machines for the most diverse of purposes. The Industrial Revolution may be considered as characterised by the combination of universally applicable skills in innovations which led to machine production. The increasing diversification of products and production processes was characterised by the increasing importance of activity-specific human skills. As a result, workers increasingly have difficulty in shifting from one activity to another due to the segmentation of labour markets (Mallet 1969: 84-95). A politically unified working class emerged as the result of the principally uniform requirements for labour in all activities. The removal of this unifying tendency has to lead to the rise of sectional interests. One hundred years ago, the universal mode of transport was dominated by the drivers of train engines, but today there are many type of drivers: pilots, truck drivers, couriers and postal delivery drivers, bus drivers, etc. Contemporary information specialists understand only some programs and cannot deal with others. In the reconstruction of East Germany it became clear that skills are enterprise specific. Despite a similar number of years of training, it was more costly to combine East German labour with modern technology than West German labour (Deutsches Institut für Wirtschaftsforschung 1992: 293).

The homogenising mechanism resulting from a rising entitlement of labour and leading automatically to equilibrium between investment and a relatively homogeneous consumption is no longer the result of uncoordinated parallel activities which admittedly converge into equilibrium only chaotically. The attempt of labour to satisfy needs other than material needs, the rising importance of collective goods, and the fragmentation of labour have undermined this process. Maintaining the stability of the system requires some sort of political intervention and negotiation, whereas previously anything was acceptable. Transaction costs in negotiations require the narrowing down of options and therefore increasingly hierarchical decision making.

We may assume that the emergence of trust to an extent previously unknown in history is required for maintaining the regulatory advantages of capitalism over non-capitalist modes of production.

Whatever problems are associated with these processes of coordination, it can be assumed that it becomes increasingly unlikely they will push the economy to the point where mass incomes become

so high that any other surplus appropriation is excluded except profit realised through investment spending. This is associated with market imperfections for differentiated goods and services through which oligopolistic price fixing becomes more widespread. This implies the emergence of financial resources quite in excess of investment which further multiply as shown by the recent financial crisis (Elsenhans 2010; Baily & Elliott 2009: 5). The capitalists are freed from fierce competition and shift to power based strategies of surplus appropriation, where rivalry and political clout matter.

There are two conclusions to be drawn from these tendencies: capitalist means of appropriating surplus are weakened and the establishment of new or complementary mechanisms have to be based on political negotiation in which the possibility of either side prevailing depend on their capacity to instrumentalise shared patterns of interpretation, shared values, and shared norms. Labour alone cannot prevail on the basis of demanding real wages but must justify its claims on the basis of shared ideas. Not surprisingly in this situation, cultural factors increasingly matter.

Without describing the new structure which emerges, two traits make it appear as non-capitalist: access to surplus depends on positioning via socially accepted power structures. Capitalist competition cannot avoid the entrenchment of these power structures because power positions are permanently created and reinforced without a parallel process of their destruction comparable to the devaluation of already invested capital through technical progress in capitalism. This leads to a hierarchical macro-structure of society. Labour can no longer assert itself without becoming influential, if not hegemonic, in the cultural sphere where the necessity of surplus can be challenged and the criticism of wasteful consumption can be addressed.

The system will tend either to a new rent-based structure -not so dissimilar from the ancient tributary modes of production, despite a very probable ideological openness to technical progress- or become a labour-dominated system where labour utilizes the undeniable achievements of capitalism for orienting production with respect to results and conditions of production (environment), as well as for reducing alienated labour (labour supplied for the satisfaction of the needs of others), by further technical innovation. Whether the first option should be called barbarism may be debated, as different pre-

capitalist modes of production have been shown by the critics of Orientalism to have been quite civilised. Whether the second option will be achieved as a sort of an end of history may also be doubted, as evidence of the emergence of capitalism does not show that ideological hegemony is an important goal of labour if reasonable household income targets are achieved. A sort of benign Old Chinese society with avenues for individual climbers might prove to be quite stable and considered by theorists of “the end of history”<sup>35</sup> as the fulfilment of the market society where individual efforts and commitment matter.

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<sup>35</sup> I think of Fukuyama 1989.

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